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SURVEY OF THE CAPITAL REQUIREMENTS OF THE ACCOMMODATION SECTOR OF THE TRAVEL INDUSTRY IN CANADA

Data, Analysis and Conclusions

TRAVEL INDUSTRY BRANCH
OFFICE OF TOURISM
DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE
OTTAWA, CANADA, (1972)

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Travel Industry Branch
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Ottawa, Canada

August 24, 1972

The Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada was undertaken under the authority of the federal Minister of Industry, Trade and Commerce, the Honourable Jean-Luc Pepin. It came about because discussions at various federal – provincial meetings convinced the ministers responsible for tourism that reports of problems in the flow of credit to the accommodation sector warranted such a survey. Much opinion had urged more governmental financial assistance but it was felt that this could not be fully considered without the benefit of factual evidence.

This volume brings together the considerable accumulation of data, and its analysis. Finally, some forty conclusions are presented.

The survey ventured into a field of investigation which could have been more extensive, but the research team imposed limits on its areas of investigation and adopted standards of reliability which it felt were called for in order to complete the task assigned. The survey's conclusions have provided the basis for the formulation of industry policy and program recommendations.

While the most conscientious effort has been made to ensure accuracy, the indulgence of readers is solicited. It would be much appreciated if any errors or suggestions could be brought to the attention of the undersigned.

Much of the material presented has resulted from extensive discussions with individuals, and industry and government organizations from one end of Canada to the other. Warm appreciation is expressed for their forthright comments and opinions. The body of detailed data came from mail questionnaires and personal interviews with accommodation operators, again representative of all parts of Canada, and of all types of smaller accommodation establishments. To all these, our sincere thanks.

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Special recognition is due to the contribution of Mr. E.W. Newton who laid out the plan of work and supervised the first phases of the project, to be succeeded as project coordinator by Mr. Georges Mailhot who drafted the volume. Mr. Peter Chau was involved in the data processing and analysis phases and conducted the supply and demand study; Mr. Emile Meilleur supervised the production of the volume.

We are indebted as well to the field personnel of the Veterans Land Act, Department of Veterans Affairs. They provided competence and understanding in conducting the interviews. The quality of the data owes much to their efforts.

On August 14, 1972, the Honourable Jean-Luc Pepin, Minister of Industry, Trade and Commerce announced the inception of a new Travel Industry Development Program which resulted from this study.

D.C. Bythell
Director
Travel Industry Branch
Office of Tourism
Department of Industry, Trade and Commerce.

DATA, ANALYSIS AND CONCLUSIONS

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PART A - FOREWORD

Section 1. Background to the Report

Canada is one of the world's leading travel destinations* with foreign and domestic travel spending, during 1970, estimated to have been approximately $4.2 billion**. The climb of the travel/tourism industry as an earner of foreign exchange has been quite rapid, averaging a 12.3% annual increase since 1959. It is thought that domestic travel by Canadians has also increased at a comparable rate during those years. This rapid expansion of the travel/tourism industry bespeaks a continuing need for development capital to meet increasing accommodation demand quantitatively and qualitatively.

The accommodation sector of the industry, through its associations and individual entrepreneurs, and the provincial governments have made representations to the Federal Government to the effect that a lack of development capital suitable to the needs of the sector is inhibiting its growth. As a consequence, these representations maintain, it is probable that the potential demand for accommodation will not be met and there will therefore be a loss of potential national economic benefits. Related to this, there is concern that existing lending institutions are reluctant to provide capital for the sector because of an inherent risk factor which is less prevalent in other investment areas. Concern is also expressed that these institutions tend to discriminate against small accommodation operators, preferring to lend their funds to larger, more highly-professionalized enterprises. This, the "small independents" claim, narrows their choice and forces them to obtain credit from sources which charge usurious interest rates accompanied by short repayment terms. Since approximately 83% of Canada's accommodation operations (excluding campgrounds) are of less than 26 units in size, these constraints apply to a very significant segment of the accommodation sector.

These questions, along with others relating to the financing problems, not only of the accommodation sector, but of all sectors of the travel/tourism industry, had been discussed at various Federal-Provincial Conferences on Tourism. As a

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* Only the U.S.A., Spain and Italy had larger receipts from international travel in 1970.

** This figure includes $1.2 billion of receipts from the Balance of Payments Travel Account, plus the mean of domestic spending estimates which range from $2 billion to $4 billion. The Canadian Travel Survey will yield accurate data on the latter.

result, in 1967, the Federal Department of Industry produced a preliminary "desk" study of the problem*. While much valuable opinion and data was brought together by this study, no conclusive action resulted because it was considered that, first, a more definitive factual analysis of the economic factors was needed, and second, it was judged, at the time, than an insufficient case had been made for the diversion, to this sector, of federal funds from other priority areas requiring financing.

The problem, however, seemed to worsen and continued to be a subject of concern at the Federal-Provincial Conferences on Tourism of 1968 and 1969. In 1969, the Travel Industry Branch of the Office of Tourism conducted a pilot study** which confirmed that more factual information was required and that this could be collected through a survey of the accommodation sector.

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* Memorandum re: Incentives to Tourist Development in Designated Areas, I.E. Johnson, Feb. 1967.

** A Preliminary Inquiry into Government Aid to The Canadian Travel Industry, Kaplan Consulting Associates Ltd., Montreal.

Section 2. Objective

With this background in mind the Minister of Industry, Trade and Commerce decided that a full scale study would be conducted. The Travel Industry Branch of the Office of Tourism undertook to launch a study in 1970 with the following objective:

> "To determine if the development capital presently available to the accommodation sector of the Canadian travel/tourism industry was adequate as to amounts, terms and conditions to provide for viable competitive enterprises and efficient growth of the sector, and, if not, to make recommendations as to the role the Federal Government should play in providing financial assistance to this sector of the travel/tourism industry to promote growth and efficiency". *

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* The survey terms of reference as set out by the General Directorate of the Office of Tourism.

Section 3. Approach

A multi-faceted enquiry was conducted to evaluate the validity and severity of the circumstances which had been described by the accommodation sector and the provincial governments, for while the general consensus was that a problem did exist, there appeared to be variations and regional differences in the problems described, with little factual support available, especially concerning the economic questions. The main steps taken in the investigation are outlined as follows:

a) A "Preliminary Inquiry into Government Aid to the Canadian Travel Industry" was commissioned by the Travel Industry Branch and executed by Kaplan Consulting Associates Limited, Montreal;

b) In order to determine more precisely the financing problems of this sector a preliminary mail-out survey was taken of all accommodation operators in Canada listed with Statistics Canada;

c) Of those who replied to the above questionnaire, a weighted sample was selected and an individual, personal in-depth interview was conducted with these operators to determine the sector's credit needs and the terms and sources of the loans which were being advanced to them;

d) A sample of the non-respondents to the preliminary mail-out questionnaire were approached to see if their principal characteristics were significantly different from the respondents group;

e) Provincial tourist bureaus were solicited for their views of the problem in particular as it concerned specific regional problems;

f) Provincial Ministers responsible for tourism were consulted by the Minister of Industry, Trade and Commerce on a number of occasions including the Federal-Provincial Conference on Tourism at Winnipeg in October, 1970;

g) Accommodation and tourism association representatives across Canada were interviewed;

h) The terms of reference and practices of Provincial and Federal lending authorities were examined in order to determine their respective activity, policies, experience and procedures as these related to the accommodation sector;

i) A sample of conventional lenders was interviewed to assess their attitudes, lending activities, experience and plans for the future insofar as the accommodation sector of the travel/tourism industry is concerned;

j) The assistance programs of other countries were scrutinized;

k) Information from all these sources was then correlated in order to identify the nature of the problem, consider alternative solutions, and make recommendations. In the process of developing solutions and recommendations, various approaches were discussed with provincial and other interested colleagues.

PART B - VIEWS OF THE PROBLEM

Section 1. The Problem Viewed by the Provinces

In order to ascertain regional needs in financing the accommodation sector of the travel industry, officials of all provincial government tourist departments were interviewed. In some instances joint meetings were held with provincial officials and accommodation association representatives. The following is a summary of salient points made by provincial representatives at these meetings. No attempt is made at this stage of the report to comment on the validity of the points which were raised.

BRITISH COLUMBIA

There is a dire need for campgrounds both for trailers and tents. Because of the short season these campgrounds tend to be uneconomic unless they are relatively large. The provincial parks have developed campgrounds but these cannot keep up with the demand. Provincial officials would prefer private entrepreneurs to fill this void and are confident that there are many who would do so if they were able to obtain capital for development. Conventional lenders consider that there is a high risk factor in this type of development and are therefore reluctant to provide credit. The greatest need is for capital for the upgrading and the expansion of existing establishments (motels, hotels, resorts, etc.). At the present time operators find it difficult to borrow for these purposes; therefore the supply of accommodation is not keeping up with the demand and upgrading is not taking place to the extent that it should. There is also a requirement for new establishments within the province, but this is not as great as that for campgrounds and for the expansion and upgrading of existing facilities.

ALBERTA

One of the major problems is that an operator cannot borrow a high enough percentage of the cost of developing accommodation establishments. At the present time he is only able to borrow about 50% of the cost of the development. This, coupled with short repayment periods (10 years is about maximum) and high interest rates has made the development of new establishments almost impossible. Concern was expressed over American ownership, particularly with regard to hunting-and-fishing-type camps and lodges. Provincial officials are of the opinion that because Canadians are unable to borrow capital on suitable terms and conditions, this trend towards American ownership of recreational-type facilities will continue. Insofar as existing motels and hotels are concerned, the greatest need is for expansion and upgrading including the adding of facilities such as dining-rooms, swimming pools, etc. The unavailability of suitable capital has precluded this being done. While there has been considerable development of large hotels in the major centres over recent years, this has now almost come to a standstill, although there still appears to be a need in both Calgary and Edmonton. Developers are reluctant to proceed at the present time owing to the very high cost of capital funds.

SASKATCHEWAN

Provincial authorities feel that the greatest need for capital is for upgrading existing establishments. Many hotels provide room accommodation only and consequently become "one-night-stop" places. To compete, these establishments will have to provide dining facilities and some additional recreational facilities such as a swimming pool. Because of the unavailability of capital at suitable terms this type of improvement has not been taking place. There is also a need for more operators to expand their activities to a year-round operation. The length of the repayment period for borrowed capital has been most critical. Most improvement or expansion loans have been from the banks with 3-to 5-year repayment periods. The operator's return on investment is just not sufficient to meet these short repayment periods.

MANITOBA

One of the chief areas of concern is the unavailability of credit from conventional lenders for developers of accommodation in the provincial parks. Park land is held under long-term lease and because the developer does not have title to the land which he can pledge as security, conventional lenders are very reluctant to advance long-term credit. The province is most interested in more tourist accommodation in the provincial parks by private interests but the lease problem has been a major constraint to development. The Manitoba Development Corporation is making some loans in this area but these are apparently insufficient to meet the need. There is a shortage of prestige-type hunting and fishing camps which provincial officials consider would be viable providing capital could be obtained at a reasonable interest rate and a long, say 15-to-20 years, repayment period. They are concerned about American ownership particularly of hunting and fishing camps. Provincial officials believe that if suitable credit had been available in Canada many of these would still be Canadian-owned.

ONTARIO

Officials are of the opinion that the greatest need for credit in the accommodation sector is for upgrading existing facilities. Because of a lack of suitable long-term credit, many of the resort operators have not been able to add the improvements necessary for a successful operation. With winter recreation expanding throughout the province (skiing, snow-mobiling, ice-fishing, etc.) there is a need to winterize what is primarily summer accommodation. Operators contemplating this find that they cannot obtain credit at terms they are able to meet. The Ontario Development Corporation has made some loans in this area but not nearly enough to satisfy the demand. At the present time provincial officials doubt if there is much need for the development of new accommodation establishments in developed tourist areas; the expansion of existing establishments would be the best solution in meeting an increasing demand for recreation-type accommodation. However, Ontario officials also maintain that new tourist areas have to be developed and to do this, government assistance will be required until these new areas have become viable. Conventional lenders are most reluctant to lend in areas of new development.

QUEBEC

The greatest demand for capital is for the upgrading of existing accommodation establishments. Many establishments, particularly those catering to the summer tourist, must upgrade their premises and provide additional facilities if they are to continue to compete. Because of the unavailability of suitable credit they have been unable to do this. There are some areas suitable for recreation that need new development and this will require risk capital, which experience has shown will not come from the conventional lenders, until these new areas are proven viable. Provincial officials point to a demand for more tent and trailer accommodation which is not being met because of lack of suitable financing from conventional lenders. They also consider that with increased winter recreation there is a need for capital to winterize summer-type accommodation. At the present time, many existing establishments are poorly financed (i.e. paying high interest rates with a short repayment period). They need refinancing with a lower interest rate and a longer repayment period. In some instances these establishments have been forced into receivership because of the demanding terms of their loan.

NEW BRUNSWICK

There is a real need for cottage-type family accommodation, particularly on the coasts. The market is there but it has not been developed because of a lack of suitable capital. If credit could be provided at a reasonable interest rate and over a sufficiently long repayment period, say, 15 years, provincial officials believe this type of accommodation to be viable even with the short summer season. There is also a great requirement to upgrade existing facilities. Because of a lack of credit, tourist accommodation has not been kept up to the standard expected by the public. In addition there is a need for more hotel and convention facilities although there has been considerable development in hotels and motels in recent years. In developing its provincial parks the province is providing the infrastructure, such as roads, power, sewage systems, water, etc., and is now calling for the private sector to provide accommodation. The land would be leased to the entrepreneur over a long term. Provincial officials are concerned that conventional lenders may be reluctant to lend under these conditions without some sort of government guarantee.

NOVA SCOTIA

The supply of accommodation has not kept up with the demand. The number of tourists has doubled in the past ten years but there has been a net increase of only 300 hotel and motel rooms in the period. While Nova Scotia does have a lending authority making loans to accommodation operators, the institution has had insufficient funds to keep up with the demand for loans. In 1970 the lending authority (Nova Scotia Industrial Loan Board) was acting only as a lender-of-last-resort. Provincial officials are concerned about the viability of seasonal accommodation establishments. Most of these establishments are family-operated and only because there is a considerable input of unpaid family labour are they able to continue to operate with reasonable success. One of Nova Scotia's greatest needs is the development of tourist areas. The proposal is for the government to develop focal points around which, it is hoped, private enterprise will develop accommodation on a long-term-lease basis. At the time of interview, this proposal was in the planning stage.

PRINCE EDWARD ISLAND

Prince Edward Island has had a provincial lending authority since 1949. Officials are convinced that without this authority the tourist plant could not have been developed to the extent it has. Notwithstanding, there is still a need for medium-priced family accommodation (efficiency units) during the summer months, plus a need to upgrade existing establishments. Provincial officials are concerned about the viability of the seasonal operations because the "season" only lasts about 100 days. For this reason they consider that existing establishments should be expanded into larger and more economic enterprises rather than new establishments being built. They realize that there is a management problem, particularly with the small operators.

NEWFOUNDLAND

Provincial representatives consider that the greatest need for capital exists, first, for upgrading, and second, for the expansion of existing accommodation establishments. There is also a need for trailer and tent-camp accommodation which until now has mostly been provided by the province. Officials are concerned about American ownership, particularly of hunting-and-fishing camps. This American take-over may have been the result of the unavailability of credit for the development of this type of enterprise by Canadians. At one time, the province guaranteed loans to accommodation operators under the provisions of the Tourist Development Loan Regulations but the responsible agency ceased operations in 1965. There had been six foreclosures and two others were pending at the time of interview. Officials are of the opinion that the Industrial Development Bank has done a good job of lending in Newfoundland, but has not filled the need for supplementary financing such as for upgrading and expanding.

Section 2. The Problem Viewed by the Accommodation Associations

During the survey, one or more representatives of most of the accommodation associations in Canada were interviewed in order to ascertain their views of needs insofar as the financing of the accommodation sector of the travel/tourism industry is concerned. Again, no comment will be made, at this stage, on the validity of the points which were raised. The following is a summary of their observations:

a) Because of a risk factor, real or imagined, the conventional lenders charge approximately 2% more than the current interest rate for other commercial enterprises and tend to restrict the length of repayment term.

b) Operators need credit for expansion, for improvements and for providing additional services. If they already have a mortgage as a first charge against the property, they are unable to borrow, as the lender usually wants a first mortgage. As a result, operators turn to short-term personal loans from chartered banks. In many instances the short repayment period creates a hardship as their income is insufficient to repay development capital in a short period.

c) Seasonal operators usually have only 3 to 4 months of operation per year. Even a ten-year loan amounts to only $3\frac{1}{2}$ full years of earnings (10 x 4/12) with which to repay the loan. In effect this is short-term credit.

d) The associations are concerned about foreign ownership. This is particularly true of resort properties, and hunting and fishing lodges. Because there seems to be more difficulty for Canadian entrepreneurs to obtain financing, this type of property is bought by Americans who apparently either have the capital or are able to borrow it.

e) There is a need for the refinancing of some existing establishments. This has come about because operators, in order to get credit, were forced to accept high interest loans and are now unable to meet their commitments. Many of these establishments would be viable if their loans were spread over a longer repayment period at a lower rate of interest.

f) In some provinces, new regulations such as requirements for fire prevention equipment or sanitary installations have necessitated the expenditure of fairly large sums of money. In most cases, operators have had to borrow on short repayment terms and, as a result, have found themselves in financial difficulties.

The following associations were interviewed:

- Hotel Association of Canada
- British Columbia Hotels' Association
- British Columbia Motels and Resorts Association
- Alberta Hotel Association
- Alberta Tourist Association
- Hotels Association of Saskatchewan
- Manitoba Hotel Association
- Manitoba Travel and Convention Association
- Territorial Hotel Association
- Territorial Fishing Camp & Motel Association
- Association of Tourist Resorts of Ontario
- Northern Ontario Tourist Outfitters Association
- Ontario Hotel and Motel Association
- Ontario Motel Association
- Ontario Association of Hotel Accountants
- Province of Quebec Hotelkeepers Association
- New Brunswick Hotel & Motel Association
- Innkeepers Guild of Nova Scotia
- Tourist Association of Nova Scotia
- Prince Edward Island Tourist Association
- Travel Industry Association of Canada (Formerly CTA)

Section 3. The Problem Viewed by the Conventional Lenders

Because of an inadequate supply of credit in Canada the conventional lenders, i.e. chartered banks, insurance companies, trust companies, mortgage companies, etc., had been very selective in their lending policy around the time of interview. Their policies had been developed with the following criteria in mind:

- the return on loaned capital;
- the element of risk;
- governmental guarantees;
- participation in equity;
- the length of time capital is loaned;
- the cost of administration;
- social responsibility.

Applying these criteria to lending to the accommodation sector of the travel industry, the conventional lenders did not see this sector in a very favourable light.

a) Only the large, highly-professionalized accommodation operators appear to generate sufficient income to be able to pay the current high interest rates. Much, if not the larger part, of new commercial accommodation is being provided by chains who not only have competent financial management, but also a strong parent company which is willing to give guarantees.

b) While many small and medium-sized operators, particularly those of a seasonal nature, may generate sufficient returns to satisfy a potential conventional lender, conventional lenders advised that their experience has not generally been good in lending to small accommodation operators, particularly those in non-urban areas. They have had some losses. They are therefore reluctant to "take a chance" on small independent (non-chain) operations, particularly if they are seasonal.

c) The major governmental guaranteed loan program is that provided through the National Housing Act. There are many other similar programs such as that provided by the Regional Development Incentives Act, but the largest amount of capital guaranteed by governmental statute is done under the N.H.A. Some insurance companies devote as much as 95% of their mortgage funds to the housing field (single family dwellings, duplexes, apartments, etc.) and in some instances over 50% of these loans are guaranteed under the N.H.A. The insurance companies are very expert in lending in this area, and have had a good experience. Therefore, they are reluctant to devote any major amount of their loan funds to other areas where there would be more risk, no repayment guarantees and where they have little expertise.

d) As a hedge against inflation many lenders are asking for some sort of participation in the profits of those companies to whom they are providing financing. This may take the form of a percentage of gross income or an equity position as a bonus for providing the loan, or both. In some instances of new construction the lender may purchase the land from the entrepreneur, provide at least part of the capital for construction and lease the land back, say, with a 50-year lease. At the end of that period the land and the building revert to the lender. This is now a common practice and is acceptable to many large commercial developers. However, the small independent operator, even if the lender were to offer this type of financing, is most reluctant to accept it. He feels he loses some control and also any chance of capital gains because of the loss of title to his land. In many cases he does not understand the intricacies of such financial transactions. It is therefore only the large companies which are able to profit from such financing.

e) Many lenders have been caught in the squeeze of having mortgage funds loaned for reasonably long periods of time at a constant interest rate. When interest rates increased they were unable to raise their rate. As a result of this, most mortgages are now being drawn over a period of time but with the interest rate negotiable at the end of each five-year period. By doing this the lenders are able to get the best return on the funds loaned. From the borrower's view, this presents him with the problem of not knowing the interest rate he will be paying on a loan five years hence. Some of the small or private lenders have used this provision in the mortgage to demand an interest rate far in excess of what normally might be expected in the market at the time of renewal. If the borrower has no other lender to turn to, he is obligated to pay the stipulated rate, causing financial hardship.

f) Because of the increasing cost of loan administration, most lenders will not entertain a commercial-loan application if it is for less than $25,000. Most lenders would prefer to place their capital in large blocks with well-financed companies. Therefore the small or medium-sized accommodation operator finds himself without a lender who would be prepared to make a small improvement or expansion loan of less than $25,000.

g) In recent times, because of a shortage of housing, insurance, mortgage, and trust companies, etc. have been under considerable pressure to devote as much of their mortgage funds as possible to housing. They feel some social obligation in this area and because of this the bulk of their mortgage funds have been committed to this sector of the economy. Some insurance companies devote as much as 95% of their loanable funds to housing. They have not felt any such social responsibility with regard to the accommodation sector of the travel/tourism industry.

In summary, it would appear that the conventional lenders are, with some exceptions, more interested in lending to large "sophisticated" operators in urban areas or where there is a proven market. Those establishments in non-urban areas and/or operating on a seasonal basis — especially if they are small operations — have great difficulty in satisfying their capital needs through conventional lending channels. This situation is aggravated in times of tight money when lenders can become even more particular about those to whom they lend their scarce resources.

PART C - PRESENT GOVERNMENTAL LENDING PROGRAMS IN CANADA

Section 1. The Federal Government

THE INDUSTRIAL DEVELOPMENT BANK (IDB)

The main purpose of the IDB is to encourage industrial development by providing capital assistance to various industries, and in particular to small and medium-sized business operations, which are unable to borrow elsewhere under reasonable terms and conditions.

The IDB is primarily involved in long-and short-term loans secured by a mortgage or first charge on fixed assets. Before the Bank extends a loan, it will first satisfy itself that the proposal put forward by the prospective borrower is sound, and, in addition, that the business is capably managed, and that a reasonable amount either already is or is about to be invested in the business by persons other than the IDB. Interest rates fluctuate periodically in keeping with general rates in Canada. While repayment periods are usually 10 to 12 years in length, longer periods do occur. The minimum interest rate in 1970 was 9.5%, with slightly higher rates for the larger loans.*

Within these terms of reference, the IDB approves loans to business operations in the travel/tourism industry. IDB loans to this industry are classified under the headings: "Recreation Services", "Restaurants and Other Eating Places", "Hotels, Motels and Other Lodgings", and "Theatres, Bowling Alleys and Billiard Halls". A total of 710 loans in these classes was approved in fiscal 1970 (ending September 30, 1970) representing a total of $30,992,000. The 710 loans account for 19.8% of the total 3,584 loans approved by the IDB in 1970. The nearly $31 million in credit represents 18.8% of the $164.6 million total amount of money lent by the Bank to all types of business operations during that year. Dealing specifically with the accommodation sector of the travel/tourism industry, 1970 figures show that 374 loans were approved for hotels, motels and other lodgings for a total of $17.8 million, making for an average of $47,000 per loan.

Part E contains a detailed appraisal if IDB assistance to the "Hotels, Motels and Other Lodgings" category.

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* The rate at the beginning of 1972 is 9%.

THE SMALL BUSINESSES LOANS ACT
(The Department of Finance, Ottawa)

The purpose of this Act essentially is to increase the availability of credit from the chartered banks to small businesses in Canada, in order to assist them in carrying out capital improvements. The loans are under a Federal Government guarantee, and are extended to business operations whose gross annual revenue during the fiscal year in which an application for a loan is made, does not exceed $500,000. Maximum amount for any loan under this Act is $25,000. Repayment periods may be up to 10 years, while the current interest rate on loans (as of April 1, 1971) is 7%. The guarantee of the loan by the federal government usually reduces the interest rate from prevailing levels. The rate of interest, determined at six-month intervals, is equal to the average yield on Government of Canada bonds with terms to maturity from one to ten years during a six-month averaging period immediately preceding the interest period, plus 1%. Security for the loan may take the form of a mortgage upon real or personal property.

Depending on the purpose of the loan, the banks will extend credit covering various percentages of the cost of a project. For example, in the case of loans for financing the construction or purchase of alternative premises, the banks may grant loans up to 90% of the cost. Other types of loans include financing the purchase, installation, improvement or modernization of moveable and fixed equipment (equipment usually affixed to real or immovable property). (See Tables C1 & C2)

TABLE C1

SMALL BUSINESSES LOANS ACT

Loans under the Provision of the Small Businesses Loans Act, 1966 to 1969 inclusive.

For provision of Food and Lodgings.

Year	Number of Loans	Amount
1966	398	$4,563,570
1967	330	$4,020,135
1968	144	$1,840,976
1969	151	$2,096,925
1970*	—	—

SOURCE: Annual Report: Small Businesses Loans Act (1969).

* The SBLA loan categories have been combined as of 1970, so that these figures are no longer available.

TABLE C2

SMALL BUSINESSES LOANS ACT

LOANS TO SERVICE BUSINESSES

1969

Service Business	Number of Loans	Amount
Provision of Food and Lodgings	151	$2,096,925
Care of the Person or his Personal or Household Effects	56	$ 660,440
Service to Business Management	19	$ 188,459
Amusement and Recreation Services	20	$ 236,704
Miscellaneous Service Businesses	266	$2,947,894
Total	512	$6,130,422

SOURCE: Annual Report: Small Businesses Loans Act (1969).

THE DEPARTMENT OF REGIONAL ECONOMIC EXPANSION (DREE)

The Department of Regional Economic Expansion has as its main objective to promote the offsetting of regional economic disparity. The Department has recognized that travel/tourism can play a part in the promotion of this objective. The following descriptions of the major DREE programs can assist in assessing the impact which these programs can have on the Canadian travel/tourism plant.

Regional Development Incentives Act (RDIA)

Under the Regional Development Incentives Act the Department of Regional Economic Expansion will provide loan guarantees in designated regions for commercial enterprises including convention facilities, hotel accommodation, and recreation facilities. Such guarantees are intended for the establishment of new facilities only. The Act allows for two different types of guarantees: In the first type, DREE will share in any losses to a proportion not to exceed 90% of the loan; the second type involves a guarantee of a straight dollar amount. To qualify for the guarantee of a loan, the new enterprise must be brought into production by December 31, 1976, and the loan must not exceed 80% of the capital costs required for the project. The minimum amounts which can be guaranteed under this program are: $2.5 million in Montreal, $500,000 in other large urban centers, and $250,000 in all remaining cases.

Special Areas

The Department of Regional Economic Expansion Act permits the designation of Special Areas. Special Areas are defined geographical areas of a relatively compact size which, by agreement with the province concerned, are to be the object of a concentrated, intensive economic expansion effort, to which the province is committed. Under this act, funds can be provided to the Provinces for the development of infrastructure such as sewage and water systems, roads, etc., that may be essential to encourage an industry to locate in a specific area. Recreation resources development or the provision of infrastructure could be an essential prerequisite to commercial accommodation or recreation development. A "special area" designation can also permit a grant to be given for the development of a travel/tourism industry project. A grant, for example, was provided for the construction of a motor-hotel in the Lesser Slave Lake special area in Alberta. This, however, was an exceptional case, and it is not expected that other grants will be given to accommodation enterprises.

The Agricultural Rural Development Act (ARDA)

ARDA agreements have been signed for the period to 1975 with each province excepting Prince Edward Island which is completely covered by a FRED agreement (Fund for Rural Economic Development Act agreement).

The ARDA agreements permit the Federal Government to participate in projects and programs designed, initiated and managed by the Provinces on a 50/50 cost-sharing basis.

The Department of Regional Economic Expansion expects more emphasis will be placed on aspects of rural development other than agriculture through the new agreements in some provinces. Part IV of the new agreements with the Atlantic Provinces will allow the provinces to develop broad programs related directly to the travel/tourism industry. The type and scope of such programs depends largely upon the conceptual capability of the provinces and their specific needs. Travel/tourism industry research, planning, feasibility study, design and development will likely all be eligible activities. Thus the provinces will be able to give greater emphasis to the travel/tourism industry than under earlier ARDA agreements. After the programs are approved, federal involvement is usually at the regional level. Agreements with the other provinces are less specific with respect to tourism but programs in this sector may result from provincial initiatives and program negotiation.

Special agreements under the federal ARDA legislation are being negotiated with the prairie provinces to enable DREE to support social and economic development programs in more northerly areas inhabited in large part by people of Indian ancestry. Some emphasis on projects relating to tourism and recreation may result.

Fund for Rural Economic Development Act (FRED)

Though no new FRED plans will be negotiated in the future, several areas are presently covered by agreements negotiated before this act was repealed in 1969, including the whole province of Prince Edward Island. Travel/tourism is receiving considerable attention in several of these plans, particularly in the P.E.I. and the Gaspé Development Plans. In the former, provisions were made to provide development loans to travel/tourism operators, but this has since been abandoned, partly because it was felt that this aspect of the plan was redundant with Industrial Development Bank activities. Agreements are subject to renegotiation, and increased inputs to the travel/tourism sector are possible in some instances. However, the fact that no new agreements can be entered means that the FRED program will have a diminishing influence on the Canadian travel/tourism plant.

Section 2. The Provincial Governments

BRITISH COLUMBIA

At the present time, no provincial lending authority exists in British Columbia.

ALBERTA

The Alberta Commercial Services Act has brought into existence the Alberta Commercial Corporation, a crown corporation whose purpose is to provide financial assistance to industries in Alberta. Among the various functions of the Corporation is one that permits loans to be made to the travel industry for the creation or expansion of travel/tourism facilities in the province, including accommodation, recreation, campground and trailer park facilities. Since the purpose of the tourism-related assistance is to develop Alberta's travel/tourism industry, loans will be made only to those facilities which, in the opinion of the Corporation, are needed in Alberta; those, in other words, which will benefit the province's travel/tourism industry as a whole.

The terms and conditions of loans are determined by the Corporation. Loans are made available in those cases where capital, although required, could not be obtained from conventional lenders under reasonable terms and conditions. Individual loans to the travel/tourism industry may not exceed $500,000. In most cases, a 15-year period of repayment will be granted. The present interest rate (April, 1971) is at 8%, although this is subject to change by the Corporation. Security is required for all loans, but this may include the personal guarantees of the principals.

It is to be noted that the changes in the Alberta Commercial Services Act providing for aid to the travel/tourism industry were introduced in March, 1971, and, as a result, no loans have been extended to date (April, 1971).

SASKATCHEWAN

Established under the Industrial Development Act, the Saskatchewan Economic Development Corporation (SEDCO) has as its purpose the provision of financial assistance to industry in the province. Changes have been made in the Act, which allow the Corporation to provide loans to the travel/tourism industry, and in particular for accommodation establishments, in areas where, according to the Corporation, conventional financing is not available. Loans will be extended to applicants whose projects will significantly benefit travel/tourism in the province.

The new regulations affecting SEDCO loans to the travel/tourism industry were introduced in December, 1969, and to date no loans have been made in this area. In other areas, however, SEDCO loans must usually be repaid over an 8-to-10-year period. Interest rates of the Corporation are closely tied to those of the chartered banks, and fluctuate accordingly. Current (April, 1971) interest charged is 9%. Applicants must satisfy the Corporation that assets held by the borrower provide reasonable security. Security usually takes the form of a first mortgage charge on fixed assets, in addition to the personal guarantees of the principals.

MANITOBA

Under the authority of the Business Development Fund Act, the Manitoba Development Fund (MDF) has been established for the purpose, in part, of promoting Manitoba's industrial development, by providing capital assistance to existing or proposed business operations. The MDF is a provincial crown corporation interested in assisting sound business operations which, in the corporation's opinion (based on the criteria of ability to earn reasonable profits, and the extent to which competent management is available), would contribute to Manitoba's economic growth.

Loans are made available in cases where financing would not otherwise be available at reasonable terms and conditions. Generally speaking, the MDF provides 50% of the capital required for expansion, with no ceiling on the amount of any individual loan, and a repayment period of between 2 and 10 years. However, in some cases this period can be extended up to 20 years. In addition to the borrower's equity investment, security in the form of real property or chattel mortgage is usually required by the Fund. Interest rates charged borrowers are not fixed, but generally rest 1% above the existing bank rate. For the fiscal year ending March 31, 1969, the rate was 9%.

From the inception of the MDF in December, 1958, to the end of March, 1969, 49 loans totalling $2.6 million have been made to assist travel/tourism operators in the province. In terms of total MDF loans approved and accepted during this period (272), the 49 loans to the travel/tourism industry represent 18% of all loans, and 2.3% of the total amount of credit extended ($117.6 million). In keeping with the MDF policy of decentralized development, 97.2% of the total amount loaned to the travel/tourism industry from 1958 to 1969 was for the development of travel/tourism in rural Manitoba. The remaining amount was extended to business operations in the metro-Winnipeg area.

ONTARIO

Financial assistance to business operations in the province, including the travel/tourism industry, is offered by the Ontario Development Corporation (ODC), a provincial crown corporation created for this purpose. Those wishing to create new facilities in Ontario or expand existing ones, may take part in the programs under the ODC.

It is the Corporation's policy that those applying for loans must satisfy it as to the viability of the proposed operation in terms of ability to operate profitably. Those who are eligible for financial assistance under other government programs or from conventional lenders may not apply. The ODC's term-financing programs offer loans to the travel/tourism industry, including loans for modernization and expansion of facilities. A ceiling of $75,000 exists on all individual loans. The maximum repayment period is 20 years. The interest rate on loans in the travel/tourism industry, although varying from time to time, currently (May, 1971) is at 7.75%.

It is to be noted that the ODC offers financial assistance to Ontario's travel/tourism industry in the form of performance loans to operators of various travel/tourism attractions, including ski hills, convention centres, and the like, with the aim of increasing the profitability of tourist establishments in the area. Therefore, apart from general viability of the project, the capacity to benefit existing travel/tourism operations in an area will be an essential requirement for those seeking a loan. Under this program, the maximum loan in eastern and northern Ontario is $500,000, while in Southern Ontario, it is $100,000.

QUEBEC

At the present time, the province of Quebec has no lending authority able to provide assistance to the travel/tourism industry.

NEW BRUNSWICK

No lending authority capable of helping the travel/tourism industry exists in the province at this time.

NOVA SCOTIA

Under legislation entitled the Industrial Loan Act, the Industrial Loan Board (ILB) and the Industrial Loan Fund were brought into existence. It is the Board's function, in part, to approve or guarantee loans to certain industries in the province in order that they may acquire land, buildings, equipment, or replace working capital used for these purposes. In considering applications for loans, it is the Board's policy that prospective borrowers must satisfy the members of the Board as to the soundness of the operation in question, and that the economy of the province will benefit from the borrower's proposal.

Loans to the travel/tourism industry are now extended for periods up to 20 years. Among the various business operations eligible for loans are hotels, motels, tourist cottages and cabins, camp and trailer sites, picnic grounds, marinas and, where there is a need, restaurants and recreation services. The ILB, in lending to the accommodation sector, presently requires the borrower to have 25% equity. The amount of any loan will not exceed 75% of the current appraised value of land, buildings or equipment taken as security by the Board. The interest rate on loans, subject to changes by the provincial government is 8.75% at this time, a decrease of 1.25% from the 1970 rate. Summary data on ILB Loans to the travel/tourism industry are to be found in Tables C3 and C4.

PRINCE EDWARD ISLAND

With the passing of the Prince Edward Island Lending Authority Act, a crown corporation, the Prince Edward Island Lending Authority, was created for the purpose of providing financial assistance to various industries in the province, including travel/tourism. One of its functions involves the guarantee of credit extended to borrowers by other lenders, such as banks, in addition to making direct loans from its own funds. Thus, the Lending Authority may guarantee credit or extend loans to provide capital for the establishment of travel/tourism facilities, including accommodation and recreational services, and provide operating funds for those in existing business operations.

Under terms and conditions set up by the Board, borrowers will be required to put up an equity of 40%. Interest rates may be adjusted from time to time by the Board, but at present (March, 1971) the rate is 9.5%. The Lending Authority will make loans available to the accommodation sector, and also to restaurants, and recreational services. A ceiling of $25,000 has been placed on all loans to the travel/tourism industry. Minimum security to be provided will be in the form of a personal guarantee on the part of the approved borrower, and a lien against a part of the borrower's assets as determined by the Lending Authority. Summary data on the Authority's loans to the travel/tourism industry are set out in Table C5.

NEWFOUNDLAND

At the present time, no provincial lending authority able to assist the travel/tourism industry exists in Newfoundland.

YUKON TERRITORY

The Yukon Territory Small Businesses Loans program, established by the Federal Department of Indian Affairs and Northern Development, is the only provincial program presently available providing capital assistance to the travel/tourism industry in the Yukon. Small business enterprises, i.e. only those with a gross annual revenue not exceeding $500,000, qualify for loans under this program. Loans are extended for the purpose of financing the purchase, installation, improvement or modernization of equipment or premises. Credit will only be advanced to applicants who are unable to obtain financial assistance at reasonable terms and conditions from other sources. A ceiling of $50,000 has been placed on all individual loans, with a usual repayment period of 10 years. Interest rates, currently (March, 1971) 9%, fluctuate from time to time. Generally, the rate of interest follows closely that established by the Industrial Development Bank. By the end of 1970, 10 loans totalling $259,000 had been granted.

NORTHWEST TERRITORIES

The Northwest Territories has available to business operations a Small Businesses Loan Fund. This fund, established by the Federal Department of Indian Affairs and Norther Development, was set up to help industries in the NWT, including the travel/tourism industry. Applications for loans from the Fund are considered only after applicants have attempted to acquire capital from other lending institutions, and have been unsuccessful due to a lack of reasonable terms and conditions. Up to the present time, only one loan has been extended to a business operation in the travel industry, that for $25,000 over a 10-year repayment period, and at a 10% rate of interest. The maximum amount available for any individual loan is $50,000. Security for the repayment of loans is determined by the Territorial Commissioner.

TABLE C3

NOVA SCOTIA: INDUSTRIAL LOAN BOARD (ILB)

TOURIST LOANS

Date (Fiscal Year)	Loans	Gross Amount of Loans	Average Amount of Loans	Repayment Period	Interest Rate
March 31, 1966	4	$ 195,300	$ 48,800	20 years	$6\frac{1}{2}$%
March 31, 1967	19	$2,390,448	$125,800	20 years	$6\frac{1}{2}$-$7\frac{1}{2}$%
March 31, 1968	28	$2,258,050	$ 80,600	20 years	$7\frac{1}{2}$%
March 31, 1969	34	$1,476,674	$ 43,400	20 years	$7\frac{1}{2}$-9%
March 31, 1970	32	$3,620,145	$113,100	20 years	9-10%

SOURCE: ANNUAL REPORT (1970), Department of Trade and Industry, Province of Nova Scotia.

Average size of loans (1966-70) : $85,000

TABLE C4

NOVA SCOTIA: INDUSTRIAL LOAN BOARD

ACCOMMODATION INDUSTRY

1970

Loans	Amount
7 New Motels (226 units)	$1,707,800
7 Motel Expansions (116 units)	$1,282,490
3 Motel Renovations (includes 4 new units)	$ 147,000
1 Protective Charge re-Motel Loan	$ 3,800
4 New Camping and Trailer Sites	$ 116,880
4 Camping and Trailer Site Expansions	$ 53,400
3 New Restaurants	$ 249,800
3 Restaurant Expansions	$ 58,975
32 Total	$3,620,145

SOURCE: ANNUAL REPORT (1970), Department of Trade and Industry, Province of Nova Scotia.

N.B. The 32 loans to the travel industry represent 82% of the total loans approved by the ILB, in 1970 (total loans numbered 39), and 58.3% of the total amount of credit.

TABLE C5

PRINCE EDWARD ISLAND LENDING AUTHORITY

LOANS TO THE TRAVEL/TOURISM INDUSTRY

Year	No. of Loans	Gross Amount of Loan	Average Size of Loan	Payment Period	Interest Rate
1966-67	28	$280,507	$10,000	10 years	5 3/4%
1967-68	28	$413,300	$14,800	10 years	6½%
1968-69	30	$353,750	$11,800	(17 loans for (15 years. (13 loans for (10 years.	18 loans at 6½% 12 loans at 7%
1969-70	35	$538,289	$15,400	(20 loans for (15 years. (15 loans for (10 years.	7%
1970-71	29	$408,440	$14,100	15 years	9½%

SOURCE: P.E.I. Lending Authority.

Average Size of Loan for 1966-1971 : $13,300

PART D - THE PRELIMINARY MAIL-OUT SURVEY

Section 1. Methodology and Findings

During the month of May and early June of 1970, 21,654 questionnaires were mailed to all accommodation operators listed with Statistics Canada. This list was taken to constitute the total of private Canadian accommodation. In fact, a certain number of operations on this list was found to be redundant, demolished, or out of business. These would, at least in part, be matched by new operations which had not yet found their way onto the list. Despite this, there is reason to believe that the figure 21,654 overestimates the size of the sector.

By early July, 10,136 usable* questionnaires had been returned, constituting a 47% response to the original 21,654 questionnaires. Table D1 summarizes the response broken down by province and credit need.

With regards to their development-capital requirements in the previous five years, the responding accommodation operators fell into the following categories:

- the percentage which had had no need for credit 52%
- the percentage which had needed and got credit 39%
- the percentage which had needed but had not got credit .. 9%

* Some returned questionnaires were unusable because of inadequate information.

NUMBER OF QUESTIONNAIRES MAILED AND RETURNED

(BY PROVINCE)

	Mailed		Returned		Response	No Need For Credit		Needed & Got Credit		Needed But Could Not Get Credit	
	No.	% of Total	No.	% of Total	% of Total	No.	% of Total	No.	% of Total	No.	% of Total
BC	2,797	13%	1,556	15%	56%	757	49%	639	41%	160	10%
ALTA	1,720	8%	652	6%	38%	336	51%	253	39%	63	10%
SASK	1,068	5%	444	4%	42%	216	49%	204	46%	24	5%
MAN	633	3%	296	3%	47%	144	49%	116	39%	36	12%
ONT	8,915	41%	4,084	40%	46%	2,287	56%	1,445	35%	352	9%
QUE	4,543	21%	2,285	23%	50%	1,105	48%	982	43%	198	9%
NB	554	3%	243	2%	44%	119	49%	111	46%	13	5%
NS	424	2%	203	2%	48%	95	47%	86	42%	22	11%
PEI	528	2%	187	2%	35%	131	70%	42	22%	14	8%
NFLD	266	1%	120	1%	45%	80	67%	31	26%	9	7%
YT&NWT	206	1%	66	1%	32%	23	35%	34	51%	9	14%
CANADA	21,654	100%	10,136	100%	47%	5,293	52%	3,943	39%	900	9%

SOURCE: Preliminary Mail-Out Survey.

A chi-square test of respondents to the preliminary mail-out survey revealed that size of establishment was a factor which affected credit need and ability to obtain financing. The 10,136 usable returns fell into the following size classes:

TABLE D2

RESPONDENTS BY SIZE OF OPERATION

OPERATION SIZE	NUMBER OF RESPONDENTS	PERCENTAGE OF TOTAL RESPONDENTS
10 UNITS OR LESS	4,045	39.9%
11 TO 25 UNITS	3,646	36.0%
26 TO 50 UNITS	1,453	14.3%
51 UNITS OR MORE	992	9.8%
TOTAL	10,136	100.0%

SOURCE: Preliminary Mail-Out Survey.

Since we know the distribution of the different operation sizes within the total group (39.9%, 36.0%, 14.3%, and 9.8%) we can expect that, if size didn't affect credit need or ability to obtain financing, the different size classes should be represented in approximately the same proportion within each credit-need group as they were represented in Table D2. The difference between this expectation and the actual numbers found in each group, was great enough to warrant the conclusion that size affects credit need or ability to obtain financing. Table D3 shows the percentage distribution of the respondents by credit need and size. If size did not affect credit need or ability to obtain financing, we should expect the percentage in each column to approximate the theoretical distribution in the first column. Table D4 shows the same information, but this time the percentages show how each size group is distributed among credit-need groups, rather than showing how each credit-need group is divided into size groups as was the case in Table D3.

TABLE D3

PERCENTAGE DISTRIBUTION OF RESPONDENTS BY CREDIT NEED AND SIZE OF OPERATION

SIZE	% OF ALL RESPONDENTS	% OF GROUP WHICH HAD NO NEED FOR CREDIT	% OF GROUP WHICH NEEDED AND GOT CREDIT	% OF GROUP WHICH NEEDED BUT DID NOT GET CREDIT
10 UNITS OR LESS	39.9% (4,045)	47.1% (2,492)	33.9% (1,339)	23.8% (214)
11 - 25 UNITS	36.0% (3,646)	33.5% (1,774)	39.0% (1,538)	37.1% (334)
26 - 50 UNITS	14.3% (1,453)	10.8% (571)	16.2% (635)	27.4% (247)
51 UNITS OR MORE	9.8% (992)	8.6% (456)	10.9% (431)	11.7% (105)
TOTAL	100.0%(10,136)	100.0% (5,293)	100.0% (3,943)	100.0% (900)

SOURCE: Preliminary Mail-Out Survey.

TABLE D4

CREDIT NEED BY SIZE OF ESTABLISHMENT IN THE FIVE YEARS PRECEDING 1970

SIZE	TOTAL NUMBER RESPONDING	NO NEED FOR CREDIT	NEEDED CREDIT	
			GOT IT	DID NOT GET IT
10 UNITS OR LESS	4,045 (100%)	2,492 (62%)	1,339 (33%)	214 (5%)
11 - 25 UNITS	3,646 (100%)	1,774 (48%)	1,538 (43%)	334 (9%)
26 - 50 UNITS	1,453 (100%)	571 (40%)	635 (44%)	247 (16%)
51 UNITS OR MORE	992 (100%)	456 (46%)	431 (44%)	105 (10%)
ALL SIZES	10,136 (100%)	5,293 (52%)	3,943 (39%)	900 (9%)

SOURCE: Preliminary Mail-Out Survey.

The "success rate" for each size group is shown in Table D5. This rate is computed by considering the frequency of success of those who needed credit.*

TABLE D5

SUCCESS RATES BY SIZE OF OPERATION FOR RESPONDENTS WHO NEEDED CREDIT IN THE 5 YEARS PRECEDING THE SURVEY

SIZE	NEEDED AND GOT CREDIT	NEEDED BUT DID NOT GET CREDIT	SUCCESS RATE
10 UNITS OR LESS	1,339	214	86.2%
11 TO 25 UNITS	1,538	334	82.1%
26 TO 50 UNITS	635	247	72.0%
51 UNITS OR MORE	431	105	80.4%
ALL SIZE GROUPS	3,943	900	81.4%

SOURCE: Preliminary Mail-Out Survey.

Several salient points emerge from a study of Tables D3, D4 and D5:

- The "10 units or less" size of operation shows less need for credit, proportionately, than any other size class. But among those in this size class who express a need for credit, the success rate is higher than in any other size class.

- The "26 to 50 units" class shows a larger proportionate need for credit than any other size class, but it has the lowest success rate of any size class when attempting to borrow.

These two points will be amplified in Part E.

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* Successful applicants/all applicants x 100 = success rate.

Table D6 shows the distribution of respondents by credit need and type of establishment:

TABLE D6

DISTRIBUTION OF RESPONDENTS
BY CREDIT NEED AND TYPE OF ESTABLISHMENT

	ALL GROUPS	NO NEED FOR CREDIT	NEEDED CREDIT AND GOT IT	NEEDED CREDIT BUT DID NOT GET IT
MOTELS	2,775 (27.4%)	1,272 (24.0%)	1,202 (30.5%)	301 (33.4%)
HOTELS	2,928 (28.9%)	1,508 (28.5%)	1,179 (29.9%)	241 (26.8%)
H.F.L.*	999 (9.9%)	450 (8.5%)	350 (8.9%)	199 (22.1%)
OTHERS	3,434 (33.9%)	2,063 (39.0%)	1,212 (30.7%)	159 (17.7%)
TOTAL	10,136 (100%)	5,293 (100%)	3,943 (100%)	900 (100%)

* Hunting and Fishing Lodges.

SOURCE: Preliminary Mail-Out Survey.

If type did not affect credit need or the ability to obtain financing, we should expect the percentage distributions in all columns to correspond to those given in the first column.

Table D7 shows "success rates" by type of establishment:

TABLE D7

SUCCESS RATES BY TYPE OF ESTABLISHMENT FOR RESPONDENTS WHO NEEDED CREDIT IN THE PREVIOUS 5 YEARS

TYPE	NEEDED AND GOT CREDIT	NEEDED BUT DID NOT GET CREDIT	SUCCESS RATE
MOTELS	1,202	301	80.0%
HOTELS	1,179	241	83.0%
H.F.L.	350	199	63.8%
OTHERS	1,212	159	88.4%
ALL TYPES	3,943	900	81.4%

SOURCE: Preliminary Mail-Out Survey.

Table D6 shows that motels and H.F.L.'s have a slightly higher-than-proportional tendency to need credit while "Others" have a considerably lower-than-proportional tendency to need it. Needing credit, however, the "Others" type has the highest success rate, while H.F.L.'s have a quite low rate of 63.8%.

Tables D8, D9, and D10 show a complete break-down of the respondents to the mail-out questionnaire by credit need, size and type of establishment.

Interest rates and repayment periods for the group which had obtained credit in the previous five years will be elaborated upon in Part E, Sections 4 and 6.

TABLE D8

NUMBER OF RESPONDENTS WHO HAD HAD NO NEED FOR CREDIT

SIZE	Total Number	MOTELS		HOTELS		H.F.L.*		OTHERS	
		Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
10 UNITS OR LESS	2,492 (47.1%)	478	9.0%	360	6.8%	341	6.4%	1,313	25.0%
11 - 25 UNITS	1,774 (33.5%)	590	11.1%	655	12.3%	80	1.5%	449	8.5%
26 - 50 UNITS	571 (10.8%)	167	3.1%	274	5.2%	22	0.4%	108	2.0%
51 UNITS OR MORE	456 (8.6%)	37	0.8%	219	4.1%	7	0.1%	193	3.6%
TOTALS	5,293 (100%)	1,272	24.0%	1,508	28.4%	450	8.4%	2,063	39.1%

SOURCE: Preliminary Mail-Out Survey.

* Hunting and Fishing Lodges.

TABLE D9

NUMBER OF RESPONDENTS WHO HAD NEEDED AND GOT CREDIT

SIZE	Total Number	MOTELS		HOTELS		H.F.L.*		OTHERS	
		Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
10 UNITS OR LESS	1,339 (33.9%)	301	7.6%	259	6.6%	221	5.6%	558	14.2%
11 - 25 UNITS	1,538 (39.0%)	606	15.4%	506	12.8%	101	2.6%	325	8.2%
26 - 50 UNITS	635 (16.2%)	231	5.9%	254	6.4%	20	0.5%	130	3.3%
51 UNITS OR MORE	431 (10.9%)	64	1.6%	160	4.1%	8	0.2%	199	5.0%
TOTALS	3,943 (100%)	1,202	30.5%	1,179	29.9%	350	8.9%	1,212	30.7%

SOURCE: Preliminary Mail-Out Survey.

* Hunting and Fishing Lodges.

TABLE D10

RESPONDENTS WHO HAD NEEDED BUT HAD NOT GOT CREDIT

SIZE	Total Number	MOTELS		HOTELS		H.F.L.*		OTHERS	
		Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
10 UNITS OR LESS	214 (23.8%)	56	6.2%	19	2.1%	107	12.0%	32	3.5%
11 - 25 UNITS	334 (37.1%)	139	15.4%	107	12.0%	59	6.5%	29	3.2%
26 - 50 UNITS	247 (27.4%)	91	10.1%	92	10.2%	26	2.9%	38	4.2%
51 UNITS OR MORE	105 (11.7%)	15	1.7%	23	2.5%	7	0.9%	60	6.6%
TOTALS	900 (100%)	301	33.4%	241	26.8%	199	22.3%	159	17.5%

SOURCE: Preliminary Mail-Out Survey.

* Hunting and Fishing Lodges.

Section 2. Control Sample

FINANCING CHARACTERISTICS OF THE NON-RESPONDENTS GROUP FROM THE PRELIMINARY SURVEY.

Though there was a 47% response to the Preliminary Mail-Out Survey questionnaire, this left approximately half of the accommodation sector not directly represented amongst the survey returns. To determine whether the 47% who had replied were truly representative of the whole sector, or whether the 53% who were non-respondents might have some bias which deterred them from responding, a weighted sampling of the 53% non-respondents was re-approached and asked to fill out the preliminary questionnaire. Of 140 establishments selected from the non-respondents (see Table D12), 89 complied. When these 89 responses were weighted up to the total of non-respondents, they exhibited the following financing characteristics:

TABLE D11

FINANCING SUCCESS OF NON-RESPONDENTS AND RESPONDENTS COMPARED

	DID NOT NEED CREDIT	NEEDED AND GOT CREDIT	NEEDED, BUT DID NOT GET CREDIT
NON-RESPONDENTS	53%	39%	8%
RESPONDENTS	52%	39%	9%

SOURCE: Control Sample.

It had been suggested that non-respondents may have had a higher incidence of successful borrowers which would tend to make them more passive with regards to expressing their financing experiences. However Table D11 indicates that the characteristics of the non-respondents are not very much unlike those of the respondents. Both groups have the same proportion of successful borrowers, and they differ only very slightly in the case of the other two financing-experience groups. The conclusion was, therefore, that, for purposes of the survey, the respondents group can be considered representative of the whole accommodation sector.

TABLE D12

TABLE SHOWING THE SELECTION OF NON-RESPONDENTS TO THE PRELIMINARY MAIL-OUT SURVEY

Province	Number for Selection of Sample	MOTELS		HOTELS		H.F.L.		OTHERS		Sample Size
		N*	n**	N	n	N	n	N	n	
BC	1006	406	5	97	5	222	5	281	5	20
ALTA	773	171	3	215	3	67	2	320	2	10
SASK	574	83	2	252	1	169	1	70	1	5
MAN	301	58	2	116	1	107	1	20	1	5
ONT	3714	652	15	560	10	1342	10	1160	10	45
QUE	1987	258	15	993	10	84	5	652	5	35
NB	265	92	2	20	1	93	1	60	1	5
NS	188	28	2	29	1	23	1	108	1	5
PEI	300	28	2	2	1	101	1	169	1	5
Nfld	107	15	2	19	1	52	1	21	1	5
YT&NWT	108	20	-	15	-	18	-	55	-	-
Total	9323	1811	50	2318	34	2278	28	2916	28	140

SOURCE: Control Sample.

N* - Total Number.
n** - Number chosen for Interview.

Section 3. Summary of Part D

a) While on a national basis only 9% showed an unsatisfied credit need, this group was composed solely of operators who actually tried to borrow capital but were unsuccessful. It does not include those who may have had a credit need, but knowing capital market conditions, thought it futile to attempt to borrow. Provisions were made to identify these operators in the Memorandum of Interview.

b) Table D10 shows that 47.7% of those who needed but did not get credit were motels or hotels in the 11-to-50-units size group. These are operations of a fairly good size which are generally non-seasonal.

c) Size affects credit need and ability to obtain financing. The smaller the operation size, the less likely it is to feel a need for credit. On the other hand, the smallest size class has the highest success rate, perhaps because it requires small, short-term loans, while the 26-to-50-units size has the lowest success rate, perhaps because it contains enterprises too small to be considered as large "sophisticated" operations by the lenders, yet too large to be satisfied with small loan amounts.

d) Hunting and Fishing Lodges have a very low success rate (63.8%) relative to other accommodation types. They consequently make up a disproportionately high 22.3% of the "Needed but Did Not Get Credit" group. Size, location and seasonality are all factors which militate against this type's success in the capital market. This is furthermore the group about which there was the greatest incidence of complaint about "foreign take-over".

PART E - THE MEMORANDUM OF INTERVIEW

Section 1. Method

The Memorandum of Interview constituted the third phase of the Accommodation Survey. In the Preliminary Mail-Out Survey, a questionnaire had been mailed to every accommodation operator in Canada; this was the first phase. In the second phase, a sampling of the 53% who did not respond to the mail-out questionnaire was approached to determine whether the group differed, as to financing experience, from the 47% who had responded. In the third phase, to be dealt with in this part, 1,000 accommodation operations were selected from the respondents to the mail-out questionnaire, for individual personal in-depth interviews. The selection was weighted according to type of accommodation, province of location, and credit need in the years preceding the interview, as shown in Tables E1, E2 and E3.

Each respondent to the Memorandum of Interview was given a weight corresponding to the number of operations which he represented. For example, in the tables mentioned, the <u>one</u> respondent selected to represent the motels in Newfoundland which had no need for credit, would have a weight of <u>ten</u> because he is representing the ten operations in this group. The 1,000 interviewees when weighted up should therefore have become 9,965 which is the grand total of the operations from which they were selected. However, since some groups were unrepresented due to interviewers not being able to contact the selected operators, the final weighted-up total came out to 9,498. This, it should be borne in mind, represents the respondents group in the preliminary mail-out questionnaire. When it was necessary to extrapolate to the full universe of all accommodation operations in Canada, it was further necessary to multiply by a coefficient of 2.28*. A further elaboration of the statistical methodology is given in Section 1 of the Appendix.

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* This coefficient is obtained by dividing the total number of operations in Canada, 21,654, by the number represented in the Memorandum of Interview, 9,498; (21,654 ÷ 9,498 = 2.28). This coefficient will yield high estimates of the industry, because among the 21,654 were some redundancies and defunct establishments, though it was not possible to estimate the number.

Information solicited as to revenues, expenses, etc. necessitated that campgrounds be isolated from the other types of accommodation. The reason for this is obvious, considering that a campsite unit is very different from any other type of accommodation unit with regard to cost, revenue-generating capacity, seasonality, etc. For this reason, the type classification was changed in progressing from the Preliminary Mail-Out Survey to the Memorandum of Interview. Campgrounds were taken from "Others" and isolated; "Hunting and Fishing Camps" were placed into "Others" out of isolation; and "Tourist Homes" of 6 units or more were taken from "Others" and placed into "Hotels".

A second feature of the Memorandum of Interview which differed from the preliminary survey was the meaning of "credit need". In the preliminary survey, the interviewee was queried as to his financing experience over the previous five years. Over this time horizon, there was a good chance that someone wanting to borrow would be able to obtain funds. Consequently, the 48% who reported that they had required credit were divided into 39% who were able to borrow and 9% who were not. Furthermore, the respondent was not asked whether he had required credit, but had not tried to borrow it. In the Memorandum of Interview, "credit need" meant something quite different. Now the time horizon was removed and the respondent was asked whether he had a "present" credit need. The question now allowed for the operator to have a credit need without having made any attempt to apply for a loan. By rights, a "present credit need" should eliminate anyone who has obtained funds, so that whereas in the preliminary survey the three credit need groups were:

- No Need for Credit,
- Needed and Got Credit,
- Needed, but Did Not Get Credit;

in the Memorandum of Interview they should have been:

- No Need for Credit,
- Needed, Tried to Borrow, but Did Not Get Credit,
- Needed, but Did Not Try to Get Credit.

Had this been the case, there would have been little tendency to try to compare what are in fact, very different cases. However, it was decided in the Memorandum of Interview that, since operators who had just borrowed had not yet had time to convert the funds into revenue-generating form and because it would be useful to have a control group with which to compare the economic characteristics of the other "credit need" groups in the interview survey, those who "Needed, Tried to Borrow, and Got Credit" would be included as a separate "present credit need" group, despite the apparent contradiction. For the stated reasons, therefore, it would be quite incorrect to try to compare the rates of success in attempting to borrow of the credit need group of the Preliminary Mail-Out Survey, with the credit need group of the Memorandum of Interview. The very low number in the latter which were able to obtain credit, is therefore not in itself a strong indicator of a present financing problem in the accommodation sector. To forget this could lead to a misconstruing of the results which will be presented in the next sections.

A third way in which the Memorandum of Interview differed from the Preliminary Mail-Out Survey, was that non-campground operations containing more than 100 units were eliminated. It was judged that while the larger accommodation enterprises had, to a degree, felt the economic pinch of high interest rates and investor uncertainty, their general characteristics spared them from many of the difficulties endemic among their smaller counterparts. Generally speaking, these larger operations enjoy economies of size, an urban location, professional management, referral reservation systems, a wide range of ancillary facilities, advertising promotion, a high-spending, expense-account-oriented clientele, year-round operation, and access to a wider variety of financing sources. Thus, the analysis of Part E does not include non-campground operations containing more than 100 units.

In reading through the following sections, it is important to have some notion of the reliability of certain data. Table E4 shows the distribution by credit need and province of the 852 actual, unweighted operators who were interviewed. Ideally, these would have been distributed in such proportions that each credit need group and province would be well represented. In fact, such ideal distribution was not the case in all instances. This less-than-ideal distribution, however, has not prevented the drawing of inferences from the larger aggregates. For example, the "Needed, Tried and Got Credit" group is not well represented in any province, but the total for Canada is large enough to allow some meaningful inference. An attempt has been made to deemphasize the data based on small representation, though such data have not been altogether overlooked. The reader should exercise some discretion in reading through the following sections and carefully heed footnotes that comment on data reliability.

TABLE E1

TABLE SHOWING THE SELECTION OF OPERATORS INTERVIEWED WITH BREAKDOWN BY CREDIT NEED, TYPE OF ENTERPRISE, AND PROVINCE

THOSE WHO HAD NO NEED FOR CREDIT

Province	Number for Selection of Sample	Number in this Group	Motels		Small Hotels		H.F.L. Camps		Others		Sample Size
			N*	n**	N	n	N	n	N	n	
BC	1525	734	318	6	128	6	172	4	116	4	20
ALTA	634	327	84	3	121	3	34	2	88	2	10
SASK	433	209	46	1	127	2	26	1	10	1	5
MAN	293	141	34	1	52	2	43	1	12	1	5
ONT	4025	2244	522	14	395	13	893	9	434	9	45
QUE	2251	1087	176	10	486	11	253	7	172	7	35
NB	238	117	39	2	22	1	37	1	19	1	5
NS	200	94	32	2	27	1	18	1	17	1	5
PEI	185	130	17	2	3	1	35	1	75	1	5
Nfld	119	80	10	1	28	2	16	1	26	1	5
YT&NWT	62	23	-	-	-	-	-	-	-	-	-
CANADA	9965	5186		42		42		28		28	140

SOURCE: Preliminary Mail-Out Survey.

N* - Total Number.
n** - Number chosen for Interview.

TABLE E2

TABLE SHOWING THE SELECTION OF OPERATORS INTERVIEWED
WITH BREAKDOWN BY CREDIT NEED, TYPE OF ENTERPRISE, AND PROVINCE

THOSE WHO HAD A NEED FOR CREDIT AND GOT IT

Province	Number for Selection of Sample	Number in this Group	Motels		Small Hotels		H.F.L. -Camps		Others		Sample Size
			N*	n**	N	n	N	n	N	n	
BC	1525	624	259	23	111	22	137	15	117	15	75
ALTA	634	243	105	14	94	13	21	9	23	9	45
SASK	433	200	54	9	113	9	19	6	14	6	30
MAN	293	114	34	9	50	9	19	6	11	6	30
ONT	4025	1422	412	69	224	69	519	46	267	46	230
QUE	2251	966	210	45	466	45	133	30	157	30	150
NB	238	108	59	12	15	6	22	6	12	6	30
NS	200	84	40	10	13	8	9	6	22	6	30
PEI	185	41	14	10	3	3	14	9	10	8	30
Nfld	119	30	8	4	9	5	11	4	2	2	15
YT&NWT	62	30	8	5	8	4	8	3	6	3	15
CANADA	9965	3862		210		193		140		137	680

SOURCE: Preliminary Mail-Out Survey.

N* - Total Number.
n** - Number chosen for Interview.

TABLE E3

TABLE SHOWING THE SELECTION OF OPERATORS INTERVIEWED WITH BREAKDOWN BY CREDIT NEED, TYPE OF ENTERPRISE, AND PROVINCE

THOSE WHO HAD A NEED FOR CREDIT BUT WERE UNABLE TO OBTAIN IT

Province	Number for Selection of Sample	Number in this Group	Motels		Small Hotels		H.F.L. Camps		Others		Sample Size
			N*	n**	N	n	N	n	N	n	
BC	1525	167	88	8	22	7	33	5	24	5	25
ALTA	634	64	24	5	25	5	2	2	13	3	15
SASK	433	24	4	2	14	4	4	2	2	2	10
MAN	293	38	13	3	13	3	5	2	7	2	10
ONT	4025	359	114	14	69	13	113	9	63	9	45
QUE	2251	198	44	10	90	11	28	7	36	7	35
NB	238	13	8	5	2	2	2	2	1	1	10
NS	200	22	2	2	10	4	1	1	9	3	10
PEI	185	14	4	4	0	0	5	3	5	3	10
Nfld	119	9	2	2	1	1	4	1	2	1	5
YT&NWT	62	9	1	1	1	1	3	1	4	2	5
CANADA	9965	917		56		51		35		38	180

SOURCE: Preliminary Mail-Out Survey.

N* - Total Number.
n** - Number chosen for Interview.

TABLE E4

NUMBER OF UNWEIGHTED OPERATIONS IN THE SURVEY
BY PROVINCE AND CREDIT NEED
(INCLUDING CAMPGROUNDS)

Province	Total Response	Number With No Need	Needed Credit: Tried And Got Credit	Needed Credit: Tried But Did Not Get Credit	Needed Credit: Did Not Try To Get Credit
NFLD	11	6	1	2	2
PEI	44	28	1	6	9
NS	40	8	2	6	24
NB	41	6	2	8	25
QUE	175	62	4	34	75
ONT	269	63	6	47	153
MAN	40	8	3	13	16
SASK	41	5	7	12	17
ALTA	63	20	2	13	28
BC	106	28	6	34	38
YT&NWT	22	7	0	6	9
CANADA	852	241	34	181	396

SOURCE: Memorandum of Interview.

Section 2. The Canadian Accommodation Sector

The following sections will refer to the first three accommodation-type groups in the survey, that is, "Motels", "Hotels", and "Others". "Campgrounds" will be treated in Section 7. The reader should recall at this point that the grouping "Others" includes: cottages, cabins, chalets, inns, resorts, hunting and fishing camps, lodges, and vacation camps.

"Motels", "Hotels" and "Others" together comprise approximately 20,000 operations* valued by their owners at $3.24 billion. Together, they contain approximately 356,000 units for an average of 17.7 units per operation**. The accommodation sector in Canada is profoundly affected by our country's great seasonal climatic variations. This seasonality factor compounds an already low average occupancy rate of 55%. Despite these problems, the sector, excluding campgrounds, managed a 14% net return to its capital, land and management***. The average non-campground operator stated that he had had, around the time of the interview in 1970, a credit need amounting to approximately $55,000 (which is $7,000 greater than his average previous loan of $47,000). If all these stated needs were genuine, and were they to be met, it would require an additional <u>$731 million</u> for the "Motels", "Hotels", and "Others" groups, increasing the total market value of this part of the accommodation sector by 22.6% and its debt outstanding by 95.6%. Whether the accommodation market could absorb such an increase would depend largely upon the regional distribution of this increase in supply; since existing supply deficiencies occur during the peak season period and only in certain areas, it is at least questionable whether all these additional facilities could be economic, or whether they would simply aggravate the present seasonal and locational problems of the sector as a whole****.

Table E5 shows how the accommodation sector in Canada is distributed by type and province. The two left hand columns will be very useful throughout our discussion for keeping a sense of proportion about each province (or region, when we need to aggregate certain provinces).

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* All aggregate figures relating to the Memorandum of Interview tend to be overestimates. <u>This does not apply to percentages or averages.</u>

** The Survey's terms of reference excluded operations containing more than 100 units. For our purposes, when we refer to the "Accommodation Sector", these larger operations will not be included.

*** This is the total return to the operator and does not take into consideration his imputed rent, if he lives on the premises.

**** If non-seasonal operators invest in facilities which cater to the local population (entertainment, beverage rooms, etc.) the sector becomes less dependent upon a seasonal trade.

TABLE E5

DISTRIBUTION OF OPERATIONS BY TYPE AND PROVINCE

	% Distribution of Total Accommodation		% of Each Type of Accommodation in Geographical Unity on Left			
	In Canada*	In Survey	Motels	Hotels	Others	Campgrounds
CANADA	21,654 (100%)	9,498 (100%)	27.3%	29.5%	31.2%	12.0%
NFLD	266 (1.2%)	74 (0.8%)	16.1%	40.3%	41.9%	1.6%
PEI	528 (2.4%)	155 (1.6%)	17.5%	8.2%	67.7%	6.5%
NS	424 (2.0%)	173 (1.8%)	36.1%	28.3%	13.4%	22.2%
NB	554 (2.6%)	194 (2.0%)	42.7%	17.6%	32.2%	7.5%
QUE	4,543 (21.0%)	1,998 (21.0%)	17.1%	51.1%	15.2%	16.5%
ONT	8,915 (41.2%)	3,994 (42.1%)	25.8%	17.9%	46.1%	10.2%
MAN	633 (2.9%)	290 (3.1%)	27.0%	38.3%	25.9%	8.7%
SASK	1,068 (4.9%)	435 (4.6%)	24.1%	64.5%	8.6%	2.7%
ALTA	1,720 (7.9%)	626 (6.6%)	32.1%	37.4%	19.2%	11.2%
BC	2,797 (12.9%)	1,522 (16.0%)	43.9%	17.2%	24.3%	14.6%
YT&NWT	206 (1.0%)	37 (0.4%)	23.3%	41.7%	30.0%	5.0%

SOURCE: Memorandum of Interview and Preliminary Mail-Out Survey.

* Note that to bring sample size to universe size, a factor of 2.28 can be used (21,654 ÷ 9,498 = 2.28). This factor tends to overestimate aggregate figures.

While the accommodation sector in Canada as a whole is made up of 27.3% Motels, 29.5% Hotels, 31.2% Others, and 12.0% Campgrounds, the proportions within the provinces sometimes differ significantly from this national distribution. For example, the Province of Quebec is hotel-intensive, B.C. is motel-intensive, Ontario is "others"-intensive, etc. Insofar as the general characteristics (size, seasonality, location) of each type of accommodation differs from the other types, a knowledge of the type-intensiveness of different provinces will give us an insight into some of their special problems.

Table E6 shows the size and seasonality distributions of the different types of accommodation. From this table, it would appear that hotels and motels have similar size distributions and are generally larger in size than the "others" type. Seasonality characteristics are even more clear-cut, with the great majority of motels and hotels non-seasonal and three-quarters of the "others" in operation from one to six months per year.

Size is an important determinant of profitability, and both profitability and seasonality are important determinants of ability to obtain credit. Thus, "others"-intensiveness in a province will imply, all other things being equal, a more severe financing problem.

Table E7 shows a percentage breakdown of the various responses given by respondents when they were asked if they had currently needed credit. It should be noted that, for the total group, approximately one-third expressed that they had no need for credit while one-half needed credit but had made no attempt to borrow it. This very large group which did not attempt to borrow the credit which it claimed to need, raises questions as to how seriously their need should be taken.

After eliminating the "No Need for Credit" group, there remained three "credit need" groups which had reported the sums which they required and the use to which they would put those funds were they able to obtain them. Aggregated, the needs totalled approximately $796 million.*

Table E8 shows the distribution of the $763 million which the "Motels","Hotels" and "Others" groups, plus the $33 million which the "Campgrounds" group gave as their total need for credit at the time of interview. The left hand column shows the percentage distribution of this amount among the provinces while the rows show what percentage of the operators within each province attempted to borrow, and for those who tried, whether a loan materialized or not.

The above table shows that more than half of the total amount lies in the "Did Not Try to Get Credit" group. There are important variations in different provinces.

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* This figure includes campgrounds.

TABLE E6

TYPES OF ACCOMMODATION BY SIZE AND SEASONALITY

	MOTELS	HOTELS	OTHERS
Less than 11 units	27.3%	29.8%	55.8%
11 to 25 units	51.0%	44.1%	39.4%
26 to 50 units	18.7%	19.0%	4.2%
51 to 100 units	2.9%	7.1%	0.6%
TOTAL	100.0%	100.0%	100.0%
In operation for 1-6 mos.	9.9%	5.5%	76.2%
In operation for 7-11 mos.	3.4%	0.6%	10.8%
In operation for 12 mos.	86.7%	93.9%	13.0%
TOTAL	100.0%	100.0%	100.0%

SOURCE: Memorandum of Interview.

TABLE E7

RESPONDENTS EXPRESSING A CREDIT NEED AT TIME OF INTERVIEW (1970)

(INCLUDING CAMPGROUNDS)

	Total Response	No Need for Credit	Needed Credit: Tried and Got Credit	Needed Credit: Tried, But Did Not Get Credit	Needed Credit: Did Not Try to Get Credit
CANADA	(100%)	(30.7%)	(3.2%)	(16.4%)	(49.7%)
NFLD	(100%)	(48.6%)	(37.8%)	(5.4%)	(8.1%)
PEI	(100%)	(81.3%)	(0.6%)	(11.0%)	(7.1%)
NS	(100%)	(40.5%)	(5.2%)	(5.8%)	(48.6%)
NB	(100%)	(23.2%)	(6.2%)	(14.4%)	(56.2%)
QUE	(100%)	(43.4%)	(0.8%)	(21.4%)	(34.4%)
ONT	(100%)	(25.3%)	(1.5%)	(9.2%)	(64.4%)
MAN	(100%)	(29.7%)	(3.1%)	(18.6%)	(48.6%)
SASK	(100%)	(9.7%)	(21.4%)	(15.9%)	(53.1%)
ALTA	(100%)	(37.2%)	(1.9%)	(25.9%)	(35.0%)
BC	(100%)	(25.9%)	(4.1%)	(26.7%)	(43.4%)
YT&NWT	(100%)	(24.3%)	(0.0%)	(24.3%)	(51.4%)

SOURCE: Memorandum of Interview.

TABLE E8

PERCENTAGE AMOUNTS OF EXPRESSED CREDIT NEED AT TIME OF INTERVIEW (1970) (INCLUDING CAMPGROUNDS)

	% of Canadian Total	"Tried and Got Credit" as a % of the Provincial Total	"Tried but Did Not Get Credit" as a % of the Provincial Total	"Did Not Try To Get Credit" as a % of the Provincial Total
CANADA	(100%)	(4.1%)	(40.8%)	(55.1%)
NFLD	(0.7%)	(55.6%)	(4.4%)	(40.1%)
PEI	(0.4%)	(5.5%)	(58.9%)	(35.6%)
NS	(2.4%)	(20.5%)	(18.5%)	(61.0%)
NB	(3.2%)	(1.9%)	(50.9%)	(47.2%)
QUE	(18.8%)	(1.5%)	(49.1%)	(49.4%)
ONT	(35.8%)	(2.8%)	(31.4%)	(65.8%)
MAN	(3.9%)	(4.2%)	(48.9%)	(46.9%)
SASK	(4.0%)	(20.5%)	(17.2%)	(62.3%)
ALTA	(11.7%)	(3.1%)	(53.2%)	(43.7%)
BC	(18.1%)	(2.8%)	(48.9%)	(48.3%)
YT&NWT	(1.0%)	-	(29.1%)	(70.9%)

SOURCE: Memorandum of Interview.

TABLE E9

DISTRIBUTION OF THE AMOUNT OF PRESENT CREDIT NEED BY PROVINCE AND SEASONALITY

Province	In Operation for 1 - 6 mos.	In Operation for 7 - 11 mos.	In Operation for 12 mos.	Total
NFLD	-	-	100%	100%
PEI	88.7%	-	11.3%	100%
NS	27.0%	-	73.0%	100%
NB	18.5%	-	81.5%	100%
QUE	17.6%	0.7%	81.7%	100%
ONT	53.9%	1.3%	44.8%	100%
MAN	5.0%	0.8%	94.2%	100%
SASK	8.8%	-	91.2%	100%
ALTA	23.3%	-	76.7%	100%
BC	5.2%	2.8%	92.0%	100%
YT&NWT	3.0%	5.0%	92.0%	100%
CANADA	20.5%	1.4%	78.1%	100%

SOURCE: Memorandum of Interview.

Table E9 shows that a relatively small proportion (21.9%) of the total amount of credit need was reported by seasonal operations. In Ontario and Prince Edward Island, which have a relatively high proportion of highly-seasonal "Others", the seasonal groups required 55.2% and 88.7%, respectively, of the credit need reported in those provinces.

TABLE E10

PRESENT CREDIT NEED GROUPS BY PROVINCE, SEASONALITY, AND AMOUNT OF NEED IN EACH GROUP

1 to 6 MONTHS (20.5% OF REPORTED NEED)

	TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT	TOTAL
NFLD	-	-	-	-
PEI	7.3%	52.3%	40.3%	100%
NS	10.2%	2.5%	87.3%	100%
NB	16.9%	30.8%	52.3%	100%
QUE	0.9%	55.0%	44.1%	100%
ONT	2.1%	10.4%	87.6%	100%
MAN	-	4.5%	95.5%	100%
SASK	0.2%	8.7%	91.1%	100%
ALTA	-	77.3%	22.7%	100%
BC	-	46.3%	53.7%	100%
YT&NWT	-	-	100.0%	100%
CANADA	2.3%	28.3%	69.4%	100%

SOURCE: Memorandum of Interview.

Tables E10, E11 and E12 further show that seasonal operations were much less likely to apply for, or, having applied for, to obtain loans.

TABLE E11

PRESENT CREDIT NEED GROUPS BY PROVINCE, SEASONALITY, AND AMOUNT OF NEED IN EACH GROUP

7 to 11 MONTHS (1.4% OF REPORTED NEED)

	TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT	TOTAL
NFLD	-	-	-	-
PEI	-	-	-	-
NS	-	-	-	-
NB	-	-	100.0%	100%
QUE	-	-	100.0%	100%
ONT	-	30.2%	69.8%	100%
MAN	-	100.0%	-	100%
SASK	-	-	-	-
ALTA	-	-	-	-
BC	-	97.0%	3.0%	100%
YT&NWT	-	100.0%	-	100%
CANADA	-	55.5%	44.5%	100%

SOURCE: Memorandum of Interview.

TABLE E12

PRESENT CREDIT NEED GROUPS BY PROVINCE, SEASONALITY, AND AMOUNT OF NEED IN EACH GROUP

12 MONTHS (78.1% OF REPORTED NEED)

	TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT	TOTAL
NFLD	73.7%	10.5%	15.8%	100%
PEI	-	-	100.0%	100%
NS	18.8%	23.0%	58.1%	100%
NB	0.4%	56.8%	42.8%	100%
QUE	-	55.8%	44.2%	100%
ONT	2.8%	35.1%	62.1%	100%
MAN	4.6%	51.8%	43.5%	100%
SASK	23.3%	17.3%	59.4%	100%
ALTA	4.5%	42.0%	53.5%	100%
BC	2.7%	51.1%	46.2%	100%
YT&NWT	-	95.8%	4.2%	100%
CANADA	4.4%	44.1%	51.5%	100%

SOURCE: Memorandum of Interview.

TABLE E13

AVERAGE AMOUNTS OF EXPRESSED CREDIT NEED
AT TIME OF INTERVIEW (1970)
(INCLUDING CAMPGROUNDS)

	AVERAGE CREDIT NEED	TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	$53,000	$48,000	$92,000	$41,000
NFLD	$66,000	$50,000	$28,000	$168,000
PEI	$47,000	$75,000	$47,000	$44,000
NS	$82,000	$193,000	$157,000	$62,000
NB	$75,000	$17,000	$203,000	$49,000
QUE	$58,000	$66,000	$76,000	$47,000
ONT	$42,000	$57,000	$107,000	$32,000
MAN	$67,000	$64,000	$124,000	$46,000
SASK	$35,000	$31,000	$35,000	$37,000
ALTA	$104,000	$107,000	$134,000	$81,000
BC	$56,000	$29,000	$76,000	$46,000
YT&NWT	$120,000	-	$109,000	$13,000

SOURCE: Memorandum of Interview.

Table E13 shows the average size of the reported credit need by province and credit need group.

It is interesting to note that by far the largest average size loan, for Canada, is required by the "Needed, Tried, but Did Not Get Credit" group. Yet, only 10.0% of this group have "Insufficient Amount" as the reason a loan did not materialize.

Size is probably the most reliable single indicator of economic viability. As an operation grows in size, it acquires characteristics which make for efficiency. The following table shows the distribution of the "Motels", "Hotels" and "Others" by size:

TABLE E14

DISTRIBUTION OF MOTELS, HOTELS AND OTHERS

BY SIZE OF OPERATION

SIZE OF OPERATION	PERCENTAGE OF TOTAL OPERATIONS	PERCENTAGE OF TOTAL UNITS	AVERAGE SIZE (IN UNITS)
LESS THAN 11 UNITS	38.6%	15.0%	6.9
11 TO 25 UNITS	44.5%	42.1%	16.7
26 TO 50 UNITS	13.4%	27.7%	36.5
51 TO 100 UNITS	3.4%	15.2%	79.1
TOTAL	100.0%	100.0%	

SOURCE: Memorandum of Interview.

Generally, it is found that the smaller operations have poorer management than the larger ones. This is not surprising if one considers that as an operation grows, there is more room for specialization of labour, so that management can become a unique function.

The less-than-11-units size group tends to be individually-owned (69.4%), and located in rural areas (67.7%) or in communities of less than 25,000 inhabitants (24.1%). The 11-to-25-units group tends to be more urban (38.6% rural, 46.1% in communities of less than 25,000 inhabitants, and 11.0% in communities of 25,000 to 50,000 inhabitants); members of this group tend to be individually-owned (52.7%), though 28.1% are incorporated. The 26-to-50-units group is largely incorporated (73.8%); 38.3% are located in communities of more than 25,000 population and 42.9% at "city centre". The bulk of the 51-to-100 units group is incorporated (76.4%) and the group is more urban than any preceding group, 50.8% being located in communities of more than 25,000 inhabitants.

Size is partly a determinant of occupancy rates*, though as Table E15 shows, the total variation among size groups is small:

TABLE E15

OCCUPANCY RATES BY SIZE OF OPERATION

SIZE OF OPERATION	AVERAGE OCCUPANCY RATE
LESS THAN 11 UNITS	52%
11 TO 25 UNITS	55%
26 TO 50 UNITS	61%
51 TO 100 UNITS	62%
ALL SIZES	55%

SOURCE: Memorandum of Interview.

Size appears to affect profitability, but there was little reported variation with regards to equity ratio or percentage of gross receipts which could be repaid towards loans, in the survey.

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* It is not unreasonable to suppose that larger size could inspire more confidence in the passing motorist who is looking for accommodation, than smaller size. On the other hand larger-size operations are probably attracted to concentrations of demand for accommodation, so that we could also say that size is partly determined by potential occupancy rates.

TABLE E16

COMPARISONS BY SIZE OF OPERATION AND REGION
(EXCLUDING CAMPGROUNDS)

	PERCENTAGE OF TOTAL OPERATIONS IN SURVEY	PERCENTAGE OF TOTAL UNITS IN SURVEY	AVERAGE SIZE OF OPERATIONS IN UNITS
CANADA	100%	100%	17.7
Atlantic Provinces	6.3%	5.6%	15.7
Quebec	19.9%	19.4%	17.2
Ontario	42.7%	38.6%	16.0
Prairies, YT &NWT	15.4%	19.1%	21.9
British Columbia	15.7%	17.4%	19.6

SOURCE: Memorandum of Interview.

Table E16 shows how the different regions compare as to size of operation in the non-campground groups. Western Canada has the largest average size. Ontario's low average size of 16.0 units is probably in large part due to a large proportion of "Others", which usually tend to be smaller than hotels or motels.

Combining what we have noted about the size and credit-need characteristics of the different regions, we derive the following five tables.

TABLE E17

DISTRIBUTION OF THE AMOUNT OF PRESENT CREDIT NEED BY REGION AND SIZE OF OPERATION (EXCLUDING CAMPGROUNDS)

REGION	LESS THAN 11 UNITS	11 TO 25 UNITS	26 TO 50 UNITS	51 TO 100 UNITS	TOTAL
Atlantic Provinces	30.4%	23.5%	31.9%	14.2%	$52.8 m. 100%
Quebec	23.6%	61.6%	11.0%	3.8%	$138.3 m. 100%
Ontario	16.2%	45.5%	25.1%	13.2%	$277.7 m. 100%
Prairies, YT&NWT	9.9%	37.7%	32.1%	20.3%	$162.4 m. 100%
British Columbia	10.0%	53.4%	36.6%	-	$132.2 m. 100%
CANADA	16.1%	46.6%	26.5%	10.8%	$763.4 m. 100%

SOURCE: Memorandum of Interview.

Each row in Table E17 gives the percentage of the total reported credit need in that province expressed by each size class. For Canada, approximately two-thirds of the total amount of needed credit is required by the under-26-units size classes. In the case of Quebec, the proportion is considerably larger, and in the cases of the Atlantic Provinces and the Prairies, YT&NWT, it is considerably lower, with concentrations found in the 11-to-25-units class.

The following four tables show the propensity for each size class to try to borrow when it needs credit. If an operator has attempted to borrow the funds which he claimed to need, greater confidence can be placed in his expressed need than if he had not attempted to borrow. It should be recalled that disaggregation greatly reduces the reliability of the data.

TABLE E18

PRESENT CREDIT NEED GROUPS
BY REGIONS AND AMOUNT OF NEED
(EXCLUDING CAMPGROUNDS)
LESS THAN 11 UNITS

REGIONS	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED BUT DID NOT GET CREDIT	NEEDED BUT DID NOT TRY TO GET CREDIT	TOTAL
ATLANTIC PROVINCES	27.3%	50.0%	22.7%	100% ($16.1 m.)
QUEBEC	-	11.9%	88.1%	100% ($32.7 m.)
ONTARIO	-	17.6%	82.4%	100% ($45.3 m.)
PRAIRIES, YT&NWT	8.2%	15.6%	76.2%	100% ($16.0 m.)
BRITISH COLUMBIA	3.5%	29.5%	67.0%	100% ($13.2 m.)
CANADA	5.0%	21.3%	73.7%	100% ($123.3 m.)

SOURCE: Memorandum of Interview.

The very small operations seem to fare well in the Atlantic Provinces, but generally speaking, they show little tendency to try to obtain the credit which they claim to need.

TABLE E19

PRESENT CREDIT NEED GROUPS
BY REGIONS AND AMOUNT OF NEED
(EXCLUDING CAMPGROUNDS)
11 TO 25 UNITS

REGIONS	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED BUT DID NOT GET CREDIT	NEEDED BUT DID NOT TRY TO GET CREDIT	TOTAL
ATLANTIC PROVINCES	-	28.1%	71.9%	100% ($12.4 m.)
QUEBEC	0.2%	63.3%	36.5%	100% ($85.2 m.)
ONTARIO	5.3%	25.4%	69.3%	100% ($126.2 m.)
PRAIRIES, YT&NWT	4.0%	70.2%	25.8%	100% ($61.2 m.)
BRITISH COLUMBIA	5.1%	31.3%	63.6%	100% ($70.6 m.)
CANADA	3.7%	43.4%	52.9%	100% ($355.6 m.

SOURCE: Memorandum of Interview.

The 11-to-25-units size class shows a greater tendency to try and borrow, perhaps reflecting a greater confidence in the potential profitability of its projects. This class contains many operations which could attain a much more efficient size with the addition of extra units.

TABLE E20

PRESENT CREDIT NEED GROUPS
BY REGIONS AND AMOUNT OF NEED
(EXCLUDING CAMPGROUNDS)

26 TO 50 UNITS

REGIONS	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED BUT DID NOT GET CREDIT	NEEDED BUT DID NOT TRY TO GET CREDIT	TOTAL
ATLANTIC PROVINCES	20.3%	42.0%	37.7%	100% ($16.9 m.)
QUEBEC	-	76.4%	23.6%	100% ($15.2 m.)
ONTARIO	1.7%	63.5%	34.8%	100% ($69.6 m.)
PRAIRIES, YT&NWT	13.0%	13.8%	73.2%	100% ($52.1 m.)
BRITISH COLUMBIA	-	88.1%	11.9%	100% ($48.4 m.)
CANADA	5.6%	55.7%	38.6%	100% ($202.2 m.)

SOURCE: Memorandum of Interview.

The 26-to-50-units size class shows the highest propensity to attempt to satisfy reported credit needs, of any size class. Again, there are significant variations among some regions.

TABLE E21

PRESENT CREDIT NEED GROUPS
BY REGIONS AND AMOUNT OF NEED
(EXCLUDING CAMPGROUNDS)

51 TO 100 UNITS

REGIONS	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED BUT DID NOT GET CREDIT	NEEDED BUT DID NOT TRY TO GET CREDIT	TOTAL
ATLANTIC PROVINCES	-	-	100%	100% ($7.5 m.)
QUEBEC	32.8%	-	67.2%	100% ($5.2 m.)
ONTARIO	-	10.3%	89.7%	100% ($36.6 m.)
PRAIRIES, YT&NWT	-	58.5%	41.5%	100% ($33.0 m.)
BRITISH COLUMBIA	-	-	-	-
CANADA	2.1%	28.0%	69.9%	100% ($82.3 m.)

SOURCE: Memorandum of Interview.

The large operations in the 51-to-100-units size class have the best economic characteristics of all size classes. Despite this, a very high proportion of the total reported credit need falls in the "Needed But Did Not Try to Get Credit" category. Since these operations have probably passed the critical size point, their projects may be too marginal to warrant accepting current capital market terms.

We can summarize the previous four tables by showing, for each size class, the proportion of the total credit need for which there was an attempt to borrow.

TABLE E22

THE PERCENTAGE OF TOTAL CREDIT NEED FOR EACH SIZE OF OPERATION WHICH WAS IN THE "TRIED TO BORROW" CATEGORIES

CANADA

LESS THAN 11 UNITS	26.3%
11 TO 25 UNITS	47.1%
26 TO 50 UNITS	61.3%
51 TO 100 UNITS	30.1%

SOURCE: Memorandum of Interview.

The results of Table E22 hold no great surprises. The more efficient size operations seemingly show a greater ability to support extra debts and probably have more promising expansion possibilities.

Table E23 gives an assessment of the calibre of management of the different types of ownership and sizes of operation. Many indicators in the accommodation sector point to the problem of a relatively low calibre of management ability. The interviewers, field staff from the Veterans' Land Administration, were asked to give, as objectively as possible, an assessment of the operator-managers which they interviewed. Though the final assessments would necessarily contain an element of subjectivity, it was judged that these interviewers possessed background experience which would give a significant degree of reliability to their assessments of management capability.

The first part shows that operations which were owned by incorporated companies were judged to be better managed, while the second part shows a perfect correlation between better management and larger size. The proficiency of management is a critical factor in the efficient operation of any business. The accommodation sector may be more susceptible to bad management because of its sensitivity to location, seasonality, weather, and changing travel trends.

TABLE E23

INTERVIEWER-ASSESSED MANAGEMENT
BY SIZE OF OPERATION AND TYPE OF OWNERSHIP

	IN EACH GROUP	GOOD	FAIR	POOR
TOTAL	(100%)	(39.5%)	(44.5%)	(16.1%)
Individual	(100%)	(35.4%)	(46.1%)	(18.5%)
Partnership	(100%)	(35.8%)	(47.1%)	(17.1%)
Incorp. Co.	(100%)	(49.4%)	(40.3%)	(10.3%)
Other	(100%)	(52.7%)	(18.3%)	(29.0%)
TOTAL	(100%)	(39.5%)	(44.5%)	(16.1%)
Under 11 units	(100%)	(24.2%)	(55.1%)	(20.7%)
11 to 25 units	(100%)	(48.6%)	(35.8%)	(15.6%)
26 to 50 units	(100%)	(49.0%)	(43.5%)	(7.5%)
51 to 100 units	(100%)	(71.6%)	(28.4%)	(0.0%)

SOURCE: Memorandum of Interview.

A SUMMARY OF THE CHARACTERISTICS OF THE DIFFERENT TYPES OF ACCOMMODATION

Motels (27.3% of all types) have a higher-than-proportional tendency to be owned in partnership and by incorporated company, though 43.6% of them are owned by individuals; 51.7% of them are located in the suburbs or on the periphery of urban centres, and 35% are rural. They have a slightly higher-than-proportional tendency to be in the "Needed, Tried, but Did Not Get Credit" group, and a slightly lower-than-proportional tendency to be in the "Needed, Tried and Got Credit" group. The motel-intensive provinces are: Nova Scotia (36.1%), New Brunswick (42.7%), Alberta (32.1%), and British Columbia (43.9%). Table E6 shows 51% of motels to be in the 11-to-25-units range, with 27.3% in the less-than-11-units range, and 86.7% of them in operation 12 months per year.

Hotels (29.5% of all types) have a higher-than-proportional tendency (38.6%) to be owned by incorporated companies, though 48.1% are owned by individuals. They tend to be located in city centre (56.4%) though 27.6% describe themselves as "rural". They have a considerably higher-than-proportional tendency to be in the "No Need for Credit", "Needed, Tried and Got Credit" and "Needed, Tried, but Did Not Get Credit" groups, making up, respectively, 35.7%, 44.7%, and 39.2% of those groups, despite the fact that they comprise only 29.5% of all types. Hotel-intensive provinces are: Newfoundland (40.3%), Quebec (51.1%), Manitoba (38.3%), Saskatchewan (64.5%), Alberta (37.4%), and Yukon/Northwest Territories (41.7%). Table E6 shows 44.1% to be in the 11-to-25-units range with 29.8% in the less-than-11-units range, and 93.9% of them in operation 12 months per year.

"Others" (31.2% of all types) is the largest single group. Since it is a "catch-all" category, it contains a large variety of different types of accommodation. Despite this variety, the operations have a great deal in common. 64.4% of them are owned by individuals, 19.8% by a partnership, and 14.8% by incorporated companies; 74.9% are located in rural areas, and 20.3% on the periphery of urban areas. They have a considerably higher-than-proportional tendency to be in the "Needed, but Did Not Try to Get Credit" group, comprising 43.2% of that group. "Others"-intensive provinces are: Newfoundland (41.9%), Prince Edward Island (67.7%), Ontario (46.1%), and New Brunswick (32.2%). Table E6 shows 55.8% of this type to be in the less-than-11 units range, with 39.4% in the 11-to-25-units range, and with a full 76.2% in operation 1 to 6 months per year, and 10.8% in operation 7 to 11 months per year, making this group a very seasonal one.

Campgrounds* (12.0% of all types) are by definition seasonal. It is relatively meaningless to compare "Campgrounds" units with "Motel", "Hotel" and "Others" units. This type will therefore be treated independently and outside the main body of the analysis. Campgrounds-intensive provinces include: Nova Scotia (22.2%), Quebec (16.5%), and British Columbia (14.6%).

* Only commercially-operated campgrounds are included in the study, though in some provinces, government-operated campgrounds make up an important proportion of the total campground facilities.

Section 3. An Economic Analysis of the Various "Credit Need" Groups

A sound assistance program must be based on a clear assessment of the profitability and viability of the different groups of operations and the managerial ability of their operators. The main criterion used for comparing the profitability amongst these groups is the "net income* per $100 capital investment".

Business management efficiency implies the ability of an operator to combine given resources in such a manner as to maximize net return or, to put it differently, the ability to realize a certain net return with minimum labour and capital expenditures. For any operation, net return can be increased by improving gross receipts, by reducing costs or by a combination of both.

Gross receipts are determined by the following factors:

a) Size of the business: However efficient a manager may be, he would not be expected to produce a comfortable net income without adequate size. Furthermore, as already explained in Section 2, growth in the size of a business usually brings with it increased efficiency in labour and equipment use through specialization and mechanization.

   In the accommodation sector, adequate size also means better services and facilities which are essential elements of the "destination or node" concept. Table E25 correlates size with net income. It should also be noted that as size increases, not only does net income increase, but the occupancy rates tend to move upward as well.

b) Productivity Per Unit: Without increasing the size of his business, an operator can very often improve his net income position by improving the productivity per unit of his operation. For example, he may strive for a higher occupancy rate by providing more and/or different types of services and facilities, or by adjusting the seasonal patters on his operation.

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* Net income includes the return to capital, land, and management.

Table E24 shows that although operations in the "highest-net-income" group* average only 38 rental units, their average net return to capital and land is 23%, primarily due to high gross receipts per unit resulting from better accommodation facilities and services such as swimming pools, licensed lounges, conference and dining facilities, etc.

The net return of a firm can also be improved through sound cost management. This may involve such decisions as whether or not to mechanize the operation, whether or not to borrow additional capital for expansion at given rates and terms to take advantage of economies of size or simply how to optimize the use of limited operating labour expenses.

Although cost is a very important determinant of net income, it will be shown that in the accommodation business net income tends to be more dependent upon gross productivity management than on cost management.

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* This is a control group which was established by ranking all the operations by size of net income and then taking the highest 10% as our "highest-net-income" group. These would serve as a control group which presumably have desirable characteristics.

TABLE E24

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

CANADA

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	2,687	287	1,444	4,405	8,823	621
Average number of units per operation	17.6	15.7	21.7	16.6	17.7	38.0
Average market value of land and capital per operation	$152,600	$136,500	$194,500	$157,300	$161,239	$522,928
Value of land and capital/unit	$8,680	$8,686	$8,973	9,491	$9,118	$13,794
Gross income/capital and land value	54%	43%	41%	35%	42%	56%
Average occupancy rate	57%	44%	49%	56%	55%	68%
Net return to land, capital and management	16%	9%	14%	13%	14%	23%
Average original loan	$48,652	$37,780	$60,590	$42,477	$46,978	$138,542
Average present credit needed	~	$49,262	$96,120	$41,293	$54,568	$123,326
Average debt outstanding	$49,000	$40,646	$64,244	$46,990	$50,453	$155,620
Average owner equity	$103,500	$95,900	$130,200	$110,300	$110,786	$367,308
Equity ratio	68%	70%	67%	70%	69%	70%
% of gross receipts which could be repaid towards loans *	13%	12%	18%	13%	14%	13%

* As reported by operators.

SOURCE: Memorandum of Interview.

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

CANADA

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	3,409	3,929	1,185	300	8,823	621
Average number of units per operation	6.9	16.7	36.5	79.1	17.7	38.0
Average market value of land and capital per operation	$80,235	$124,542	$327,270	$906,500	$161,239	$522,928
Value of land and capital/unit	$11,679	$7,458	$8,966	$11,460	$9,118	$13,794
Gross ~~income~~/capital and land value	29.7%	39.8%	55.3%	40.6%	42.0%	56.0%
Average occupancy rate	52%	55%	61%	62%	55%	68%
Net return to land, capital and management	9.5%	12.7%	14.7%	15.6%	14.0%	23%
Average original loan	$18,403	$36,891	$107,920	$238,267	$46,978	$138,542
Average present credit needed	$23,215	$55,214	$109,196	$212,453	$54,568	$123,326
Average debt outstanding	$19,707	$42,689	$111,955	$229,034	$50,453	$155,620
Average owner equity	$60,528	$81,853	$215,315	$677,466	$110,786	$367,308
Equity ratio	75%	66%	66%	75%	69%	70%
% of gross receipts which could be repaid towards loans *	12%	15%	15%	12%	14%	13%

* As reported by operators.

SOURCE: Memorandum of Interview.

THE "NEEDED, TRIED AND GOT CREDIT" GROUP

It may seem contradictory to consider successful borrowers as having a present credit need, but this approach was useful for three reasons:

(a) - the loans had not yet been converted into productive accommodation facilities;
(b) - it provided a group with which to compare the other two "need" groups;
(c) - this group had had a credit need around the time of interview.

Of the total operators with a present credit need (including campground operators), 28.2% had tried to borrow, and 4.6% of them had obtained credit in 1970. The total amount of credit granted was $32,827,440 or 4.1% of the reported total present credit need of $796,536,000. The highest success rates were found in Newfoundland (87.5%), Saskatchewan (57.4%) and Nova Scotia (47.4%), while Prince Edward Island (5.6%), Quebec (3.4%), Alberta (6.9%), the Yukon and Northwest Territories (0.0%) and British Columbia (13.2%) were among the provinces with the lowest success rates*.

Contrary to the expectation that successful borrowers would probably be those corporate operations with large collateral assets and sophisticated bookkeeping systems, etc..., this group actually consists of small operators in small cities or towns who were in a position where they had to accept the same terms which were rejected by "unsuccessful borrowers"; (55% of the total original loans are from "Private" sources, and consist mostly of "transfer" credit**). Operators in the "Needed, Tried and Got Credit" group are, in economic and management terms, the least efficient of all groups.

The average size of this group is 15.7 rental units (compared with 17.7 units for all groups and 38 units for the "highest-net-income" group), yielding an average rate of "net return to capital, land, and management" of 9% per year (compared with 14% for all groups and 23% for the "highest-net-income" group). Since these are generally small operators, they lack the necessary facilities and services for an attractive modern accommodation business. Table E26 compares the availability of services in this group with that of the average for all groups and the average of the "highest-net-income" group. It should be noted that the percentage is the smallest for this group for each type of supplementary facilities.

* The "successful group" was so small, that in the less-populated provinces, the sampling has a low degree of reliability.

** In the study, we speak of "development" and "transfer" credit. The latter serves to transfer ownership of existing facilities, so that it has little real impact upon the accommodation plant.

TABLE E26

COMPARISON OF GROSS RECEIPTS TO TOTAL INVESTMENT AND THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF ACCOMMODATION ESTABLISHMENTS

(EXCLUDING CAMPGROUNDS)

	"NEEDED, TRIED AND GOT CREDIT" GROUP	ALL GROUPS	"HIGHEST-NET-INCOME" GROUP
Number of Establishments	287	8,823	621
Occupancy Rate	44%	55%	68%
% of Establishments with Pools	7%	8%	7%
% of Establishments with Convention Halls	8%	10%	27%
% of Establishments with Licensed Lounges	47%	35%	75%
% of Establishments with Dining Rooms	61%	50%	81%
% of Establishments with Coffee Shops	15%	19%	34%
Gross Receipt/Capital and Land Investment	43%	42%	56%
Net Return /Capital Land and Management	9%	14%	23%
Average Size (in units)	15.7	17.7	38.0

SOURCE: Memorandum of Interview.

Small size of operation is probably one of the main reasons for a low average occupancy rate (44% compared to 55% for all groups and 68% for the "highest-net-income" group), though the "Needed, Tried and Got Credit" group had relatively good services (licensed lounges, dining rooms).

Table E27 summarizes the characteristics of the "Needed, Tried and Got Credit" group:

TABLE E27

CHARACTERISTICS OF ACCOMMODATION OPERATIONS IN THE "NEEDED, TRIED AND GOT CREDIT" GROUP

	HOTEL	MOTEL	OTHERS
Number of Operations	135	72	80
Size and Seasonality Characteristics	84% have under 25 units and operate 12 mos. per year.	72% have between 11 - 25 units and operate 12 mos. per year.	80% have under 25 units and operate 12 mos. per year.
Location	Mostly in NFLD, MAN and SASK.	Mostly in NS, SASK, ALTA and especially BC.	Mostly in NB and ONT.

SOURCE: Memorandum of Interview.

Judging from this group's total gross receipts of $38.1 million, their present debt outstanding of $17.3 million and the 12% of gross receipts* which they reported they would be able to set aside for debt repayment, it is estimated that at current terms of 9.9% interest with a 9-year repayment term**, this group could have absorbed an additional $1.2 million. This is without considering that additional investment would increase gross receipts. To support its additional borrowings of $32.1 million, which increased this group's market value by 35.4%, the new investment will have to generate an 81.9% increase in gross receipts. As a result of these additional loans, this group's debt outstanding increased by 185.5%***. This group's capital and land value is presently generating 43% of its value in gross annual receipts.

* The terms "receipts" and "revenue" are used interchangeably throughout the report.

** IDB's average terms in 1970 (these ranged from 9.5% to 10.5%).

*** Due to a small sample number, this group has by far the lowest reliability, particularly with regards to the more complex calculations.

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

This group represents 16.4% of the total number of respondents and 23.6% of those with a present credit need. These operators accounted for 40.8% ($325 million) of the total reported present credit need. The sources to which they unsuccessfully applied are shown in Table E28:

TABLE E28

LENDING SOURCES APPLIED TO BY THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

SOURCE	PERCENTAGE OF TOTAL CASES*
BANK	56.2%
MORTGAGE CO.	25.8%
IDB	40.3%
PROV. GOV'T	9.0%
PRIVATE	15.6%
FINANCE CO.	8.6%
OTHER	6.4%

SOURCE: Memorandum of Interview.

This group's failure to obtain credit was in large part due to their unwillingness to accept high interest and/or short repayment terms rather than the lenders' refusal to loan. Two factors support this last contention:

a) The economic characteristics of the "Tried, but Did Not Get Credit" group show them to be much more viable than the "Tried and Got Credit" group;

* The percentages add up to more than 100% due to cases where more than one source was applied to.

b) "High interest" and "Short repayment period" are cited most frequently as reasons why the loans did not materialize.

TABLE E29

REASONS WHY LOANS DID NOT MATERIALIZE

INSUFFICIENT EQUITY	24.6%
INSUFFICIENT AMOUNT	10.0%
HIGH INTEREST	53.4%
SHORT TERM	47.1%
OTHER	23.1%

SOURCE: Memorandum of Interview.

Although the average size of this group is larger than the average size for all groups (21.7 units compared with 17.7 units for all groups), the net return to capital, land and management is the same in both cases (14%). This probably reflects the lack in this group of such facilities as licensed lounges, dining and conference facilities, etc., and consequently the relatively low gross productivity per unit (41% compared with 42% and 56% for all groups and the "highest-net-income" group, respectively). There is some indication that this group's planned projects would have justified accepting current capital-market terms. The fact that they did not, however, does not necessarily mean that the projects were abandoned. The operators may very well have taken a "wait and see" position.

TABLE E30

COMPARISON OF GROSS RECEIPTS TO TOTAL INVESTMENT AND THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF ACCOMMODATION ESTABLISHMENTS

(EXCLUDING CAMPGROUNDS)

	"NEEDED, TRIED BUT DID NOT GET CREDIT" GROUP	ALL GROUPS	"HIGHEST-NET-INCOME" GROUP
Number of Establishments	1,444	8,823	621
Occupancy Rate	49%	55%	68%
% of Establishments with Pools	17%	8%	7%
% of Establishments with Convention Halls	21%	10%	27%
% of Establishments with Licensed Lounges	45%	35%	75%
% of Establishments with Dining Rooms	55%	50%	81%
% of Establishments with Coffee Shops	27%	19%	34%
Gross Receipt/Capital and Land Investment	41%	42%	56%
Net Return /Capital Land and Management	14%	14%	23%
Average Size (in units)	21.7	17.7	38.0

SOURCE: Memorandum of Interview.

Judging from this group's total gross receipts of $263.6 million, their present debt outstanding of $180.8 million and the 18% of gross receipts which they reported they would be able to set aside for debt repayment, it is estimated that at current terms of 9.9% interest with a 9-year repayment term*, this group could absorb an additional $112.0 million. This is without considering that additional investment would increase gross receipts. To support the additional reported credit need of $324.7 million, which would increase this group's market value by 49.4%, the new investment would have to generate a 76.5% increase in gross receipts. This reported amount, were it to be granted, would, furthermore, increase this group's present debt outstanding by 174.9%. Even if these estimates are considered high, and the loans were granted over a period of years, this group's ability to repay such an amount would be sorely taxed. It is possible that this group overstated the amounts which they claimed to have tried to borrow or that they have overestimated the increase in receipts which such new investment would generate. Their total present capital and land investment is presently generating 41% of its value in gross receipts.

Operators in this group are frequently capable managers of reasonably large-size enterprises operating 12 months per year in medium-size cities and towns (52.8%, vs. 44.5% for all groups, have between 11 and 25 units; 25.2%, vs. 13.4% for all groups, have between 26 and 50 units).

The realization of capital projects for this group seems, in some part, to depend upon the ability of these operators to recognize the inherent profitability of additional investment and their willingness to take a calculated risk.

The following table summarizes the size, seasonality and location characteristics of operators in the "Needed, Tried, but Did Not Get Credit" group.

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* IDB's average terms in 1970.

TABLE E 31

CHARACTERISTICS OF ACCOMMODATION OPERATIONS IN THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	HOTEL	MOTEL	OTHERS
Number of Operations	609	502	333
Size and Seasonality Characteristics	86% have 11 to 50 units and operate12 mos. per year.	84% have 11 to 50 units and operate 12 mos. per year.	47% have less than 25 units, 51% have less than 22 units and operate 6 mos. per year.
Location	Mostly in ONT, and especially in QUE.	Mostly in MAN, ALTA, YT&NWT, & BC.	Mostly in PEI, NB, ALTA, QUE & especially BC.

SOURCE: Memorandum of Interview.

THE "NEEDED, BUT DID NOT TRY TO GET CREDIT" GROUP

This group, (including campgrounds) making up 49.7% of all respondents and 71.8% of all respondents with a need for credit, was reported to have a need for a total of $429 million (55.1% of the total amount of reported present credit need) in 1970. Since respondents in this group did not try to obtain this credit, it is not clear whether or not their stated need was a serious reflection of their financial requirements or just a whim at the moment of interview. There is ample reason to believe that the latter factor is important. Nevertheless, there is no doubt that within this group there exists a number of operators who would have tried to borrow, but being aware of the market conditions or of their own financial difficulties felt that it was futile to apply for a loan.

Generally speaking, this group consists of smaller-than-average operations (excluding campgrounds, 88.2% are under 26 units) concentrated mainly in small cities and towns (under 25,000 population) and managed by individual proprietors or on a partnership contractual basis.

The average-size operation in this group has 16.6 units compared with 17.7 for all groups and 38 for the "highest-net-income" group. Although the average net return to capital, land and management is 13% (vs. 14% for all groups) it should be pointed out that the 135 large operations making up 3.1% of the total number of operations in this group, averaged 17% net return to capital, land and management while the other 96.9% of operations earned less than 12% net return. Here again, we have a case of low gross productivity.

Low gross receipts for the "Needed, but Did Not Try to Get Credit" group are due to two factors:

a) As shown in Table E32, there seem to be inadequate services offered by these establishments. This probably is due to a small average size of operation.

b) 46.3% of the total number of operations in the "Did Not Try to Get Credit" group are classified as "Others". 85% of these "Other" operations operate for less than 7 months per year and have less than 26 rental units. (44.7% of operations in the "Did Not Try to Get Credit" group are in operation 6 months per year vs. 36% for all groups). Small size, seasonality and a non-urban location (so that credit sources are not easily accessible), all militate against this type of operation's being successful in obtaining credit. These characteristics also militate against the group's ability to repay loans, so that they may be reluctant to borrow the capital which they claim to need.

TABLE E32

COMPARISON OF GROSS RECEIPTS TO TOTAL INVESTMENT AND THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF ACCOMMODATION ESTABLISHMENTS

(EXCLUDING CAMPGROUNDS)

	"NEEDED, BUT DID NOT TRY TO GET CREDIT" GROUP	ALL GROUPS	"HIGHEST-NET-INCOME" GROUP
Number of Establishments	4,405	8,823	621
Occupancy Rate	56%	55%	68%
% of Establishments with Pools	6%	8%	7%
% of Establishments with Convention Halls	7%	10%	27%
% of Establishments with Licensed Lounges	28%	35%	75%
% of Establishments with Dining Rooms	46%	50%	81%
% of Establishments with Coffee Shops	15%	19%	34%
Gross Receipt/Capital and Land Investment	35%	42%	56%
Net Return/Capital Land and Management	13%	14%	23%
Average Size (in units)	16.6	17.7	38.0

SOURCE: Memorandum of Interview.

Table E33 summarizes the "size, seasonality and location" characteristics of this "Needed, but Did Not Try to Get Credit" group.

TABLE E33

CHARACTERISTICS OF ACCOMMODATION OPERATIONS IN THE "NEEDED BUT DID NOT TRY TO GET CREDIT" GROUP

	HOTEL	MOTEL	OTHERS
Number of Operations	1,050	1,314	2,041
Size and Seasonality Characteristics	71.7% have less than 25 units and operate 12 mos. per year.	74.7% have less than 25 units and operate 12 mos. per year.	85% have less than 25 units and operate 6 mos. per year.
Location	Mostly in QUE, NS, MAN & SASK.	Mostly in ONT, NB & BC.	Mostly in ONT.

SOURCE: Memorandum of Interview.

Judging from this group's total gross receipts of $541.5 million, their present debt outstanding of $404.5 million and the 13% of gross receipts which they reported they would be able to set aside for debt repayment, it is estimated that at current terms of 9.9% interest over a 9-year repayment term, this group could absorb an additional $29.8 million. This is without considering that additional investment would increase gross receipts. To support the additional reported credit need of $414.7 million, which would increase this group's market value by 26.3%, the new investment would have to generate a 95.4%* increase in gross receipts. This reported amount, were it to be borrowed, would increase the group's present debt outstanding by 102.5%. It is rather obvious from these figures that only a part of the reported need can be considered as representing a serious estimate.

* It is presently generating 35% gross receipts to market value of the establishment.

THE "NO NEED FOR CREDIT" GROUP

30.7% of the total number of respondents to the Memorandum of Interview stated that they had "No Need for Credit" in 1970. This group is largely made up of small-and medium-size operators (40.2% having under 11 units and 41.1% between 11 and 25 units compared with 38.6% and 44.5%, respectively, for all groups) who have to some extent demonstrated competence in business management. There appears to be more evidence of a corporate or partnership structure of ownership among these operations.

Apart from those classified as "Others", which are mostly small seasonal operations, this "No Need for Credit" group consists mainly of full-year hotel and motel operations in the under-25-units size group (with the larger proportion in the 11-to-25-units group) which can be found in higher-than-proportional concentrations in Alberta, Quebec, Nova Scotia, Prince Edward Island and Newfoundland.

The average size operation in this group has 17.6 units compared with the average of 17.7 units for all groups and 38 units for the "highest-net-income" group. This group's net return to capital, land, and management is 16%, 2% higher than the average of 14% for all groups. Table E34 permits a comparison of the availability of services and facilities in various groups and its effect on occupancy rates and productivity.

Considering the present gross receipts, outstanding debts and the percent of gross receipts which operators in the "No Need for Credit" group have indicated that they could afford to set aside for debt repayment, this group should be able to carry an additional total debt of approximately $199 million at 9.9% interest with a 9-year repayment term, provided that economic conditions were such that it would provide enough incentive for these operators to borrow.

TABLE E34

COMPARISON OF GROSS RECEIPTS TO TOTAL INVESTMENT
AND THE AVAILABILITY OF SERVICES AND FACILITIES
IN VARIOUS GROUPS OF ACCOMMODATION ESTABLISHMENTS

(EXCLUDING CAMPGROUNDS)

	"NO NEED FOR CREDIT" GROUP	ALL GROUPS	"HIGHEST-NET-INCOME" GROUP
Number of Establishments	2,687	8,823	621
Occupancy Rate	57%	55%	68%
% of Establishments with Pools	5%	8%	7%
% of Establishments with Convention Halls	8%	10%	27%
% of Establishments with Licensed Lounges	35%	35%	75%
% of Establishments with Dining Rooms	51%	50%	81%
% of Establishments with Coffee Shops	21%	19%	34%
Gross Receipt/Capital and Land Investment	54%	42%	56%
Net Return /Capital Land and Management	16%	14%	23%
Average Size (in units)	17.6	17.7	38.0

SOURCE: Memorandum of Interview.

Section 4. Financing the Accommodation Sector

Section 3 has already revealed the amounts and distribution of the total reported present credit need, by type, region, size and seasonality. Though some further reference will be made to this reported credit need, this section will primarily deal with the financing experience of the accommodation sector in the past, touching upon sources of credit, amounts, terms, the sector's present equity position, and other data pertinent to assessing the financing capabilities of a sector. Special attention will be paid to the IDB's activities relative to the accommodation sector, in Section 5.

Respondents to the Memorandum of Interview reported the source, average amount, and terms of their loans in the years preceding the interview. The information given related to primary and secondary loans. Since primary loans are generally larger than secondary loans, they often derive from different financing sources, and since these sources have different characteristics with regard to interest rates and repayment periods, knowing the source can be a valuable aid in identifying financing problems. Mortgage companies charge rates somewhat above the chartered banks, but they will grant larger amounts; finance companies demand very high rates of interest, so that recourse to them is often indicative of financial desperation or poor financial management; the IDB charges current market rates which rise slightly with the size of loan; provincial government financing agencies often give favourable terms, but only five provinces had such agencies at the time of interview.

Table E35 shows the source, relative activity of that source, and average size of loan, for both primary and secondary loans granted in the years preceding the interview, for all Canada. It should be noted that primary loans account for 84.3% of total primary and secondary loans, while secondary loans account for 15.7%.

If one considers both the primary and secondary loan categories, private sources of credit account for 54.6% of the total dollar amount of the reported loans. This, therefore, accounts for the lion's share of accommodation sector financing. The characteristics of private loans can range from a low-interest, no-set-repayment-time loan granted by a relative, to "loan-sharking". In general, these loans probably stem from an ex-owner financing a new owner. Evidence for this hypothesis will be presented later in this section. The terms, in cases like this, will probably reflect market conditions as well as the ex-owner's desire to make the sale, the latter in turn largely depending upon the economic viability of the operation. We shall see that "private" sources have tended to demand an interest rate approximately one percentage point above the IDB benchmark rate.

TABLE E35

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

CANADA

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (84.3% of Total)		
PRIVATE	55.8%	$48,771
MORTGAGE CO	22.6%	$95,433
BANK	9.3%	$28,305
IDB	5.7%	$53,802
PROV. GOV'T	2.0%	$82,163
FINANCE CO	0.8%	$35,932
OTHER	3.8%	$36,373
SECONDARY (15.7% of Total)		
PRIVATE	48.6%	$26,183
BANK	39.3%	$15,521
IDB	4.6%	$34,014
FINANCE CO	1.6%	$9,456
MORTGAGE CO	0.9%	$18,016
PROV. GOV'T	0.2%	$30,000
OTHER	4.8%	$39,807

SOURCE: Memorandum of Interview.

Mortgage companies and Chartered Banks make up, respectively, 19.2% and 14.0% of the total reported dollar amount of primary and secondary loans. Together, they account for approximately one-third of all financing. Mortgage companies give larger average loans than chartered banks ($95,433 vs. $28,305 for primary loans, and $18,016 vs. $15,521 for secondary loans). Consequently, mortgage companies are relatively more important in the primary loan area (22.6% of the total amount vs. 9.3% for banks) while banks are relatively more important in the secondary loan area (39.3% of the total amount vs. 0.9% for mortgage companies). The going interest rate for mortgage companies has generally been the highest of any source. The chartered bank rate, on the other hand, has been comparable to the IDB's. The size of loans required by the accommodation sector, therefore, probably affects the interest cost by determining the most probable source of the loan. Of the "Needed, Tried but Did Not Get Credit" group, 10.0% reported "Insufficient Amount" as a reason why the loan did not materialize. Of this group, 25.8% approached a mortgage company for a loan, and 56.2% approached a chartered bank.

Finance companies have a notoriously high rate of interest, but less than 1% of the primary loan amount issued from this source. In the secondary loan category, 1.6% of the total amount derived from finance companies at an average of $9,456 per loan. It is likely that any well-managed operation would only consider this form of financing for a short term, perhaps to ease cash-flow problems.

Provincial and Federal Government financing authorities (excluding the Small Businesses Loans Act) accounted for 7.3% of the total primary and secondary loans amount. At the time of interview, only Nova Scotia, Prince Edward Island, Manitoba, Saskatchewan and Ontario had financing authorities which would grant loans to the accommodation sector*, and the amount loaned in Ontario had been negligible. Nova Scotia and Prince Edward Island which have been quite active in making loans had the highest percentage of "Needed, Tried, but Did Not Get Credit" group applications to a provincial agency (80.0% and 58.8% respectively) and among the lowest reporting "High Interest" (30.0% and 35.2%) and "Short Term" (20.0% and 0.0%) as the reasons why a loan did not materialize. The IDB, which serves all of Canada, will be treated separately.

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* Alberta has since included the accommodation sector in its lending program.

It would be useful to keep in mind in considering what follows that the terms of a loan cannot be judged on their own, but must rather be judged in light of the economic viability of the project which is to be financed by the loan. If the project is potentially very profitable, it is justifiable to pay high rates of interest rather than go without funds. Obviously, the project would be even more profitable if funds could be had at a low rate of interest. In judging whether terms are prohibitive, it is therefore more useful to look at the economic characteristics of the establishment and then compare these to capital market conditions. This requires financial management ability, a characteristic which is demonstrably in short supply among smaller-size establishments in general.

Over one-half of the total financing obtained by the accommodation sector in Canada came from private sources, while the next largest source, mortgage companies, accounted for only one-fifth of the total. This situation would indicate a great reliance on private resources. Yet only 15.6% of the "Needed, Tried, but Did Not Get Credit" group applied to private sources to finance their credit needs around the time of interview:

TABLE E36

LENDING SOURCES APPLIED TO BY THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

CANADA

SOURCE	PERCENTAGE OF TOTAL CASES
BANK	56.2%
MORTGAGE CO.	25.8%
IDB	40.3%
PROV. GOV'T	9.0%
PRIVATE	15.6%
FINANCE CO.	8.6%
OTHER	6.4%

SOURCE: Memorandum of Interview.

A plausible explanation for this anomaly is that the bulk of the private financing arises in cases where there is a transfer of ownership and the ex-owner agrees to finance the new owner. This explanation would be consistent with the low incidence of applications to private sources in the "Needed, Tried, but Did Not Get Credit" group. The logic behind this is easier to grasp if financing needs are thought of as being related to "transfer credit" and "development credit".

Transfer credit allows a change of ownership, but aside from affecting the quality of management (positively or negatively), it has little real effect on the accommodation sector*. Development credit is used to effect a positive quantitative or qualitative change in the sector. What our hypothesis states is that transfer credit generally has a higher tendency to come from private sources, while development credit generally comes from non-private sources. The argument which supports this hypothesis is as follows: If one queries accommodation operators as to their borrowing experiences over a time period (i.e., in the years preceding the interview), those operators who became new owners during that period and who therefore probably used transfer credit will be included, whereas when one asks present owners about their present credit needs, those who presently need transfer credit, "potential" new owners, are by definition, excluded. Since the "Needed, Tried, but Did Not Get Credit" group are already owners and are therefore probably soliciting development credit, and since they have shown a very low propensity to approach private sources (which it will be recalled account for a very high proportion of total accommodation financing), one concludes that these important private sources are mainly supplying transfer credit. It is further asserted that the reason why private sources and transfer credit tend to be related is because ex-owners finance new owners. Given that private sources tend to issue loans at higher rates of interest than any other source, save mortgage companies, and for shorter repayment periods than either mortgage companies or the IDB, it is to be expected that those areas with larger proportions of financing from private sources would also have larger proportions of demand for refinancing funds.

Tables E37 and E45 confirm that the two provinces with the highest proportion of outstanding debts held by private sources, Quebec (68.2%) and British Columbia (78.5%) were also those provinces with the highest reported need for refinancing, together making up over three-fifths of the total reported need of $50.7 million.

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* An exception to this would be the case where an establishment has been non-operative, but would be reopened under new management.

The following table illustrates the distribution of sources to which the accommodation sector* owes its reported outstanding debt of $784.5 million and the percentage of total indebtedness which each source accounts for:

TABLE E37

PERCENTAGE OF DEBT OUTSTANDING BEING HELD BY EACH FINANCING SOURCE IN EACH REGION

Lenders	Atlantic Provinces	Quebec	Ontario	Prairie Prov., YT&NWT	British Columbia	Canada
Bank	8.9%	9.2%	7.0%	19.6%	9.6%	10.2%
Mortgage Co.	22.2%	1.6%	33.3%	14.0%	5.2%	18.2%
IDB	7.5%	13.4%	4.0%	9.8%	3.7%	6.3%
Prov. Gov't	33.5%	0.1%	-	4.7%	-	2.2%
Private	23.3%	68.2%	54.2%	41.4%	78.5%	58.7%
Other	4.6%	7.6%	1.6%	10.5%	3.0%	4.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

SOURCE: Memorandum of Interview.

For Canada as a whole, the proportion of the debt outstanding held by each financing source fairly closely follows each source's proportion of total lending. In all regions save the Atlantic Provinces, "private" sources are the single greatest holder of the total debt outstanding.

* Again, we remind the reader that our figure excludes non-campground operations containing more than 100 units.

TABLE E38

AMOUNTS, DISTRIBUTION AND USES OF LOANS, SEASONALITY AND LOCATION OF OPERATORS, BY PROVINCE, FOR LOANS FROM "PRIVATE" SOURCES

	LOANS FOR INITIAL PURCHASE OF OPERATIONS				LOANS FOR ALL OTHER REASONS
	1 - 11 MONTHS IN OPERATION			12 MONTHS IN OPERATION	
	URBAN LOCATION	SUB-URBAN LOCATION	RURAL LOCATION		
NFLD	-	-	-	-	$319,200 (100%)
PEI	-	-	-	-	$268,584 (100%)
NS	-	$171,000 (23.8%)	$27,360 (3.8%)	$302,100 (42.0%)	$218,880 (30.4%)
NB	-	$123,120 (2.1%)	$1,641,600 (27.7%)	$3,328,800 (56.2%	$829,008 (14.0%)
QUE	$943,920 (1.1%)	$150,480 (0.2%)	$2,851,140 (3.4%)	$64,367,820 (77.1%)	$15,130,080 (18.1%)
ONT	$437,760 (0.2%)	$766,080 (0.3%)	$92,811,960 (40.8%)	$105,843,300 (46.5%)	$27,697,868 (12.2%)
MAN	-	-	$57,000 (0.3%)	$16,744,320 (83.7%)	$3,201,120 (16.0%)
SASK	-	-	$389,880 (2.7%)	$9,225,450 (62.9%)	$5,061,600 (34.5%)
ALTA	$3,417,720 (8.8%)	-	$485,640 (1.2%)	$30,257,880 (77.5%)	$4,883,760 (12.5%)
BC	-	-	$14,458,050 (10.0%)	$130,152,425 (89.8%)	$290,700 (0.2%)
YT&NWT	-	-	-	$2,063,400 (83.7%)	$401,280 (16.3%)
CANADA	$4,799,400 (0.9%)	$1,210,680 (0.2%)	$112,722,630 (20.9%)	$362,285,495 (67.2%)	$58,302,080 (10.8%)

SOURCE: Memorandum of Interview.

The data in Table E38 supports the notion that private sources mainly account for transfer credit. The table shows that 89.2% of the reported dollar amount of loans issued by private sources went to finance the initial purchase of already-existing accommodation operations. If it be recalled that private sources account for 54.6% of the total dollar amount of all reported loans, this means that at least one-half of all loans consisted of transfer-credit. Furthermore, approximately one-quarter of this transfer-credit went towards the purchase of rural, seasonal operations, while the bulk of the rest went for the purchase of non-seasonal operations.

It is difficult to judge whether this degree of ownership turnover is a good or bad sign. Is the turnover due to a demand on the part of buyers for profitable investments so that the operations would bring an irresistable price for the ex-owner, or, are the operati ons in such dire straits that the owners must sell at a buyer's price? There are probably regional differences. A very high percentage of Ontario's turnover is with rural-seasonal operations. In BC and Quebec, two provinces which finance a very high proportion of their loans through private sources, the turnover is concentrated in non-seasonal operations.

Table E39 shows the amounts from private sources which consisted of transfer credit. The correlation between high turnover and years of general economic dislocation suggests that a large part of the turnover may be due to economic hardship on the part of the ex-owner.

TABLE E39

DISTRIBUTION OF THE AMOUNT OF LOANS FOR "INITIAL PURCHASE" BY YEAR AND SOURCE

	(a) "PRIVATE" SOURCES	(b) ALL SOURCES	(a) AS A PERCENTAGE OF (b)
1965	$39.6 m.	$42.3 m.	93.6%
1966	$24.6 m.	$42.5 m.	57.9%
1967	$45.5 m.	$69.8 m.	65.2%
1968	$69.5 m.	$74.4 m.	93.4%
1969	$80.9 m.	$113.7 m.	71.2%

SOURCE: Memorandum of Interview.

Table E40 shows the total amount of the debt outstanding for each region and compares it with the distribution of accommodation operations:

TABLE E40

TOTAL DISTRIBUTION OF DEBT OUTSTANDING

AND NUMBER OF OPERATIONS BY REGION

REGIONS	DISTRIBUTION OF OPERATIONS	TOTAL DEBT OUTSTANDING	DISTRIBUTION OF DEBT OUTSTANDING
ATLANTIC PROVINCES	6.2%	$28.1 m.	3.6%
QUEBEC	21.0%	$93.6 m.	11.9%
ONTARIO	42.1%	$287.2 m.	36.6%
PRAIRIES, YT&NWT	14.7%	$171.8 m.	21.9%
BRITISH COLUMBIA	16.0%	$203.8 m.	26.0%
CANADA	100%	$784.5 m.	100%

SOURCE: Memorandum of Interview.

Judging from Table E41, it would appear that the Western Provinces had been receiving a greater-than-proportional share of the total financing granted to the accommodation sector, while Quebec was receiving considerably less than a proportional share. The Atlantic Provinces were receiving a slightly less-than-proportional share, while Ontario was receiving a proportional share. This situation is reflected in the distribution of the total debt outstanding. Shares of the total debt outstanding in British Columbia and the Prairies, YT&NWT would suggest that accelerated investment had been going on there for some time.

TABLE E41

FINANCIAL CHARACTERISTICS BY REGION

	DISTRIBUTION OF				
	Total Accommodation in Survey	Total Credit Need in $ at Time of Interview	Total Debt Outstanding	Total Reported $ in Primary Loans	Total Reported $ in Secondary Loans
Atlantic Provinces	6.2%	6.7%	3.6%	4.5%	3.2%
Quebec	21.0%	18.8%	11.9%	13.0%	11.4%
Ontario	42.1%	35.8%	36.6%	41.0%	45.8%
Prairies, YT&NWT	14.7%	20.5%	21.9%	19.7%	22.7%
British Columbia	16.0%	18.1%	26.0%	21.9%	16.9%
Canada	100%	100%	100%	100%	100%

SOURCE: Memorandum of Interview.

Graph E43 shows an unmistakable upward movement in the interest rates of all financing sources lending to the accommodation sector, after 1965. Mortgage companies showed by far the largest increase. Private sources were the next highest, though they tended to merge with chartered banks and the IDB in 1970. Banks showed a rise of approximately 3 percentage points over the five-year interval in question. The IDB closely follows the chartered banks' rates, going from slightly above to slightly below in 1968.

TABLE E42

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

CANADA

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966 **	7.1% (200)	5.0 (200)			8.0% (62)	8.2 (62)	9.6% (48)	9.4 (48)	7.2% (40)	8.8 (40)	8.1% (52)	8.4 (52)
1967	7.7% (274)	5.1 (274)			9.0% (49)	8.2 (49)	9.0% (30)	12.3 (30)	8.0% (44)	9.5 (44)	9.3% (57)	6.7 (57)
1968	8.8% (443)	4.8 (443)			9.1% (90)	6.7 (90)	10.2% (35)	10.9 (35)	8.2% (83)	9.4 (83)	9.2% (95)	7.0 (95)
1969	9.4% (761)	3.7 (761)			10.3% (143)	8.0 (143)	11.9% (75)	10.4 (75)	9.3% (119)	9.0 (119)	10.5% (138)	6.3 (138)
1970	10.0% (598)	3.2 (598)			10.0% (76)	7.3 (76)	13.6% (49)	9.0 (49)	9.9% (48)	9.0 (48)	11.9% (108)	5.0 (108)

* Repayment Term is given in years.

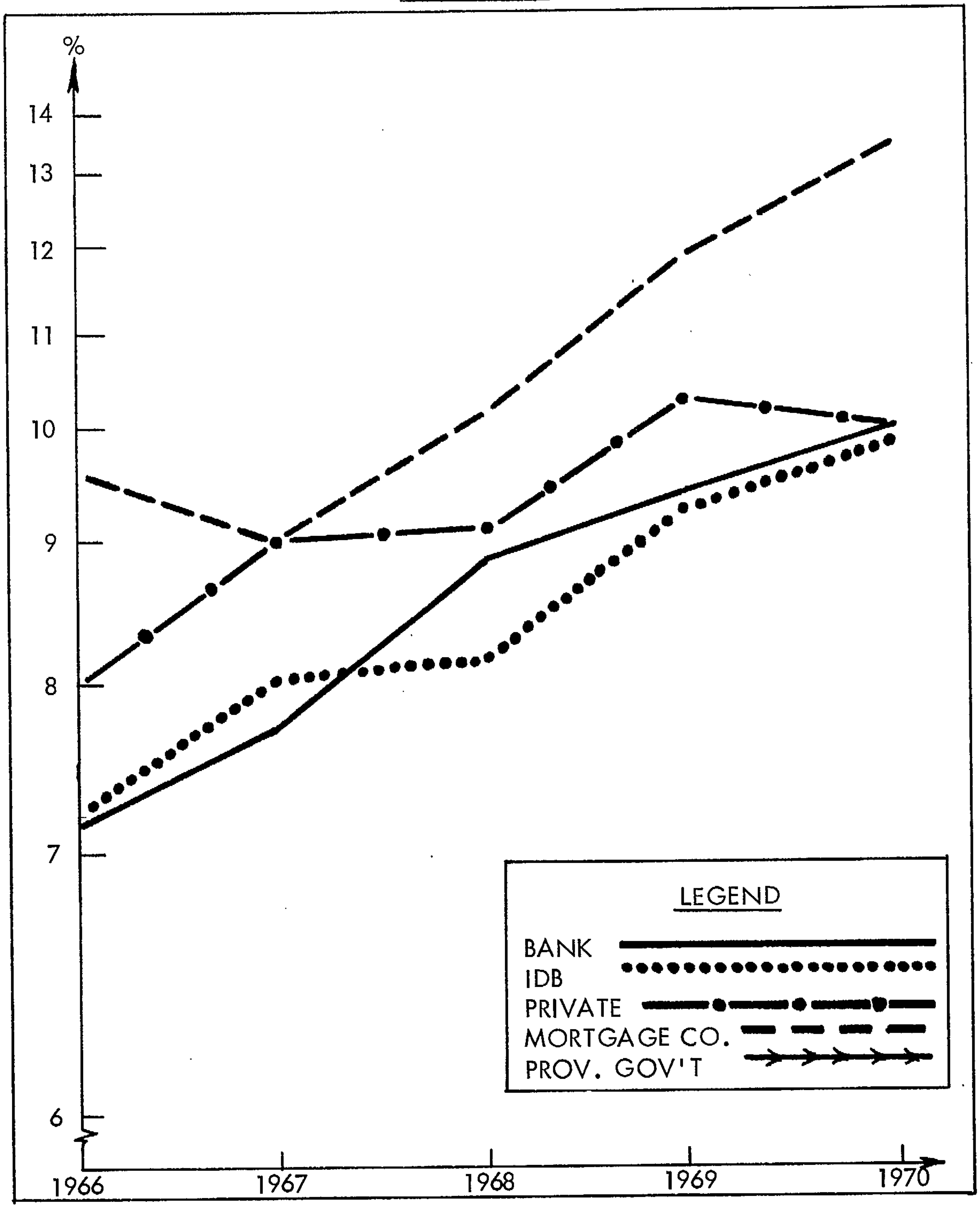
** The figure in parentheses gives the number of observations.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E43

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

CANADA



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

Thus, it would appear from the evidence in Graph E43 that the accommodation sector is quite justified in its complaints of current high rates. However, an examination of the Canadian economy during this period will serve to qualify the above conclusion. The Canadian economy, in those years, moved into a period of monetary restraint combined with price inflation. The former was, in fact, a reaction to the latter. A tighter monetary policy reduced the supply of loanable funds thereby causing the price of money (the interest rate) to rise; inflation caused the financial institutions to raise the interest rate further in order to cover themselves against erosion of the principal which they were lending. Approaching 1970, even the risk element, which is a constituent part of the interest rate, probably increased as more enterprises developed cash problems. An operator who pays current high interest rates should discount the inflationary factor in the interest rate, as this is compensated for by an inflationary increase in the value of the capital for which the borrowed sum is being expended*. In short, the real rate of interest is not as high as the nominal rate. Our conclusion is further qualified by the degree to which governmental policies have been successful in reducing the rate of inflation, and by the current change in monetary policy which should increase the supply of loanable funds and by fostering economic growth, reduce the element of risk to the lender. Thus, there are indications that the high-interest-rate problem of accommodation operators may, in part, resolve itself. However, the longer-term prognosis is that interest rates will not soon return to pre-1966 levels.

Having said this, it should be recalled that 55% of the total financing in the accommodation sector emanates from "private" sources and 19% from mortgage companies. Since the former source consists almost exclusively of transfer credit, this means that the 19% from mortgage companies accounts for around 40% of the development credit which flows to the accommodation sector. Thus, it would appear that a considerable proportion of development credit in the accommodation sector is subject to interest rates which are significantly higher than those which usually apply to small business loans, and the "private" sources charge a rate somewhat above what might be considered a normal rate. Judging from Graph E43 this situation has considerably worsened in recent years. This phenomenon is probably related to a risk factor, or what lenders believe to be a risk factor, in the accommodation sector.

Table E44 shows that approximately 57% of the total reported present credit need was for the purpose of enlarging existing operations (equivalent to approximately 48,000 new units with ancillary services), and 33% was for improving and providing additional services. The first would mainly effect a <u>quantitative</u> change, while the second would effect a <u>qualitative</u> change. Note the high qualitative need in Ontario, and the need for refinancing in British Columbia and Quebec.

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* Though this may nevertheless cause cash-flow problems.

TABLE E44

THE DISTRIBUTION OF PRESENT CREDIT NEED BY REASONS FOR NEED AND REGION

Region	Enlarging	Improving	Additional Services	Refinancing	Other	TOTAL
Atlantic Provinces	56.5%	11.7%	11.1%	0.2%	20.5%	100%
Quebec	59.1%	12.8%	13.4%	11.8%	2.9%	100%
Ontario	52.6%	37.0%	3.8%	2.5%	4.2%	100%
Prairie Provinces, YT&NWT	62.5%	9.1%	20.7%	7.0%	0.7%	100%
British Columbia	58.4%	19.5%	10.6%	11.2%	0.3%	100%
Canada	57.1%	22.2%	10.6%	6.4%	3.7%	100%

SOURCE: Memorandum of Interview.

The rapid rise in interest rates in the past five years has tended to choke off the demand for refinancing. The reported credit need which was for refinancing purposes (6.4% of the total reported present credit need) amounted to 6.5% of the total debt outstanding. The following table shows the distribution of this demand.

Though the total reported need for refinancing involves a relatively small part of the total reported debt outstanding, it should be noted that the respondents were not asked whether they required funds for refinancing; rather, they specified it themselves. This sum may therefore include only those operators who are paying rates considerably above the norm, and probably excludes many who are slightly above.

TABLE E45

TOTAL REPORTED PRESENT CREDIT NEED FOR REFINANCING PURPOSES BY PROVINCE

NEWFOUNDLAND	-
PRINCE EDWARD ISLAND	$109,440
NOVA SCOTIA	-
NEW BRUNSWICK	-
QUEBEC	$15,123,240
ONTARIO	$8,634,816
MANITOBA	$1,580,040
SASKATCHEWAN	$4,612,360
ALBERTA	$4,402,076
BRITISH COLUMBIA	$15,619,368
YT & NWT	$615,600
CANADA	$50,696,940

SOURCE: Memorandum of Interview.

TABLE E46

FINANCIAL CHARACTERISTICS OF CREDIT NEED GROUPS*

	"Needed, Tried, and Got Credit" Group**	"Needed, Tried but Did Not Get Credit" Group	"Did Not Try to Get Credit" Group
Present Market Value	$90.7 m.	$640.2 m.	$1,579.4 m.
Present Total Gross Receipts	$38.1 m.	$263.6 m.	$541.5 m.
Present Debt Outstanding	$17.3 m.	$180.8 m.	$404.5 m.
Reported Present Credit Need	$32.1 m.	$316.2 m.	$414.7 m.
Reported proportion of Gross Receipts which can be allocated for Debt Repayment	12%	18%	13%
Increase in Present Market Value if Credit is Obtained	35.4%	49.4%	26.3%
Increase in Present Debt Outstanding if Credit is Obtained	185.5%	174.9%	102.5%
Required Increase in Gross Receipts to support Reported Credit Need	$31.2 m.	$201.6 m.	$516.8 m.
Required Increase in Gross Receipts to support Reported Credit Need(%)	81.9%	76.5%	95.4%
Present Gross Receipts/Market Value	43%	41%	35%

SOURCE: Memorandum of Interview.

* This table summarizes data which has been presented piece-meal in the previous section.

** Low representation in the sample gives this group a low reliability with regard to certain figures.

Let us examine what the average Canadian, non-seasonal, non-campground operator has to contend with when he finances a new "unit"* at current market terms of 10% interest rate with a repayment period of 10 years. It will be relevant to consider the profitability and the effect upon the operation's cash position, of such an addition.

Given this group's current occupancy rate of 55% and assuming total revenues per rented room-night (including revenue from ancillary services) of $15, the additional unit could be expected to earn $3,014 per year (in a non-seasonal operation) in additional gross revenue**. If the cost of the additional unit is equal to the average reported market value of units for "Motels", "Hotels", and "Others", the operator will have to borrow $9,120. This assumes that he can borrow the whole amount. The following table shows the profitability of the incremental "unit":

TABLE E47

NET PROFIT IN YEAR 1

Additional Revenue		$3,014
Additional Expenses:		
- Interest	$912	
- Depreciation***	$912	
- Other expenses****	$904	
	$2,728	$2,728
Net profit		$286

* Including ancillary services in non-campground operations of 100 units or less.

** This is lower than the average reported gross revenue per unit of $3,871, in the survey.

*** 10% of building and equipment value. Buildings depreciate at 5%, equipment at 20%.

**** Approximately 30% of revenue.

This is a return of 3.1% on the value of the investment. If the operator could now raise his occupancy rate above 55%, net profit would rise dramatically because variable costs are low. A potentially less fruitful approach would be to increase his additional revenue through additional services or decrease his "other expenses" per unit through economies of scale. The "break-even" occupancy rate would be approximately 50%.

An examination of the cash-flow will show that, in our example, this tends to be less of a problem than profitability:

TABLE E48

CASH-FLOW IN YEAR 1

Additional Revenue	$3,014
Less "other expenses"*	$904
Net Revenue before loan repayment	$2,110
Annual loan repayment	$1,486
Net Cash Position	$624

Given shorter repayment terms, it could be shown that an operation could develop cash-flow problems, and even be foreclosed as a result, all the while having a net profit on the incremental unit.

The average operator reported that he could afford to pay 14% of gross revenue (in this case $422) towards debt repayment. A non-seasonal operator should be able to do somewhat better.

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* The interest cost will be considered in the total repayment towards the loan. Actually, in our loan we assume 10 equal annual payments, so that the interest component is lower than the $912 considered in our profit table; depreciation, while it is a real cost, is excluded because it does not involve an immediate cash out-flow.

It is obvious from Table E46 that incremental investment is not going to increase gross receipts to the point necessary to repay the debts incurred to finance that investment if operators can repay only 14% of gross receipts. In fact, they would have to repay much more than 14% of incremental receipts. The small seasonal operators find this difficult to do. They presently find themselves in a squeeze. They need a certain minimum of their net income to live on (their return to management) leaving little which can be poured back into the enterprise (return to capital and land). Beyond a certain size all net income could be reinvested, but they have not yet reached that size. Seasonality tends to squeeze them further.

Section 5. The Industrial Development Bank

The role of the Industrial Development Bank was touched upon in Part C. There now follows a more detailed appraisal of this agency's performance vis-à-vis the accommodation sector, drawing upon the Memorandum of Interview and upon a special research project which the IDB conducted for the Office of Tourism.

The IDB was established to deal with the very sort of financing problems which confront the accommodation sector. The Bank's participation vis-à-vis accommodation has been rapidly increasing in recent years both in absolute terms and relative to its activity in other industries. Because of this past involvement and a great future potential, the Bank's activities merit special attention.

Table E51 illustrates the distribution of the amount and number of IDB loans to the accommodation sector, by region. Regional variations are not always in proportion to the number of accommodation operations in each region. This has probably been due to regional differences in size and type of accommodation, as well as regional differences in traditional financing patterns.

TABLE E51

THE DISTRIBUTION OF NUMBERS AND AMOUNTS OF LOANS TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY BY PROVINCE AS REPORTED BY THE IDB

REGION	DISTRIBUTION OF AMOUNT OF LOANS	DISTRIBUTION OF NUMBER OF LOANS
ATLANTIC PROVINCES	8.4%	11.7%
QUEBEC	11.5%	13.2%
ONTARIO	22.9%	28.9%
PRAIRIES, YT&NWT	26.5%	18.2%
BRITISH COLUMBIA	30.4%	28.1%
CANADA	100%	100%

SOURCE: Special IDB Study for the Office of Tourism.

The following table which shows the proportion of the "Needed, Tried, but Did Not Get Credit" group that applied to the IDB, illustrates the preceding point:

TABLE E52

PERCENTAGE OF APPLICANTS IN THE SURVEY WHO APPLIED TO IDB

CANADA	40.3%
NEWFOUNDLAND	100.0%
PRINCE EDWARD ISLAND	35.2%
NOVA SCOTIA	30.0%
NEW BRUNSWICK	25.0%
QUEBEC	20.8%
ONTARIO	50.3%
MANITOBA	40.7%
SASKATCHEWAN	39.1%
ALBERTA	56.1%
BRITISH COLUMBIA	46.5%
YUKON AND NORTHWEST TERRITORIES	44.4%

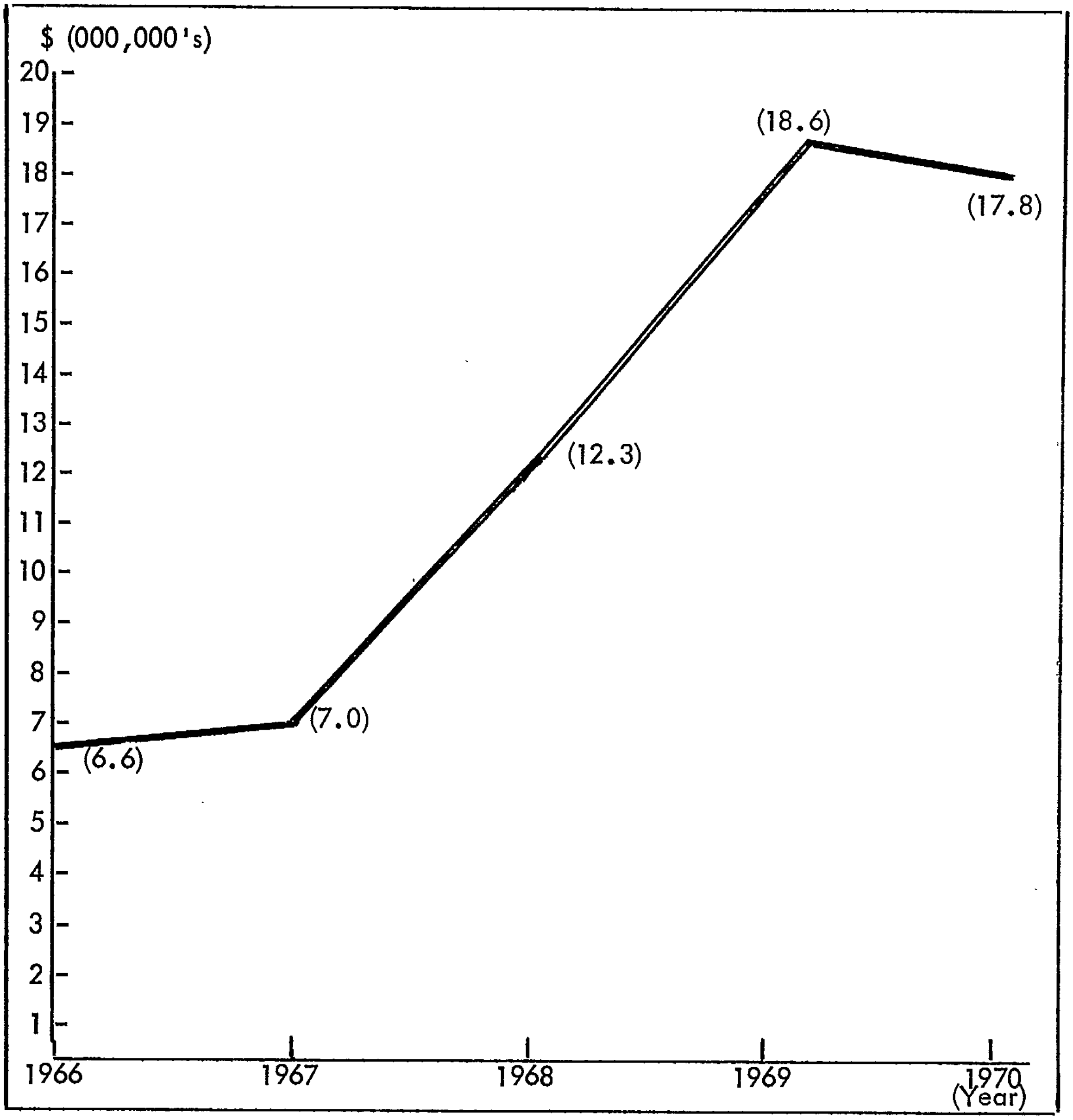
SOURCE: Memorandum of Interview.

The lower rates of application to the IDB in the case of Nova Scotia and Prince Edward Island may be explained by reason of the existence of their respective provincial lending authorities which seem to be quite active judging from the number of operators who applied to them (80.0% and 58.8% respectively). In the case of Quebec, however, the reason for the low rate of application is not so easily explained. The answer may lie in traditional financing patterns.

The following tables and graphs are derived from aggregate data which the IDB provided to the Office of Tourism.

GRAPH E53

AMOUNT OF LOANS ISSUED BY THE IDB TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY



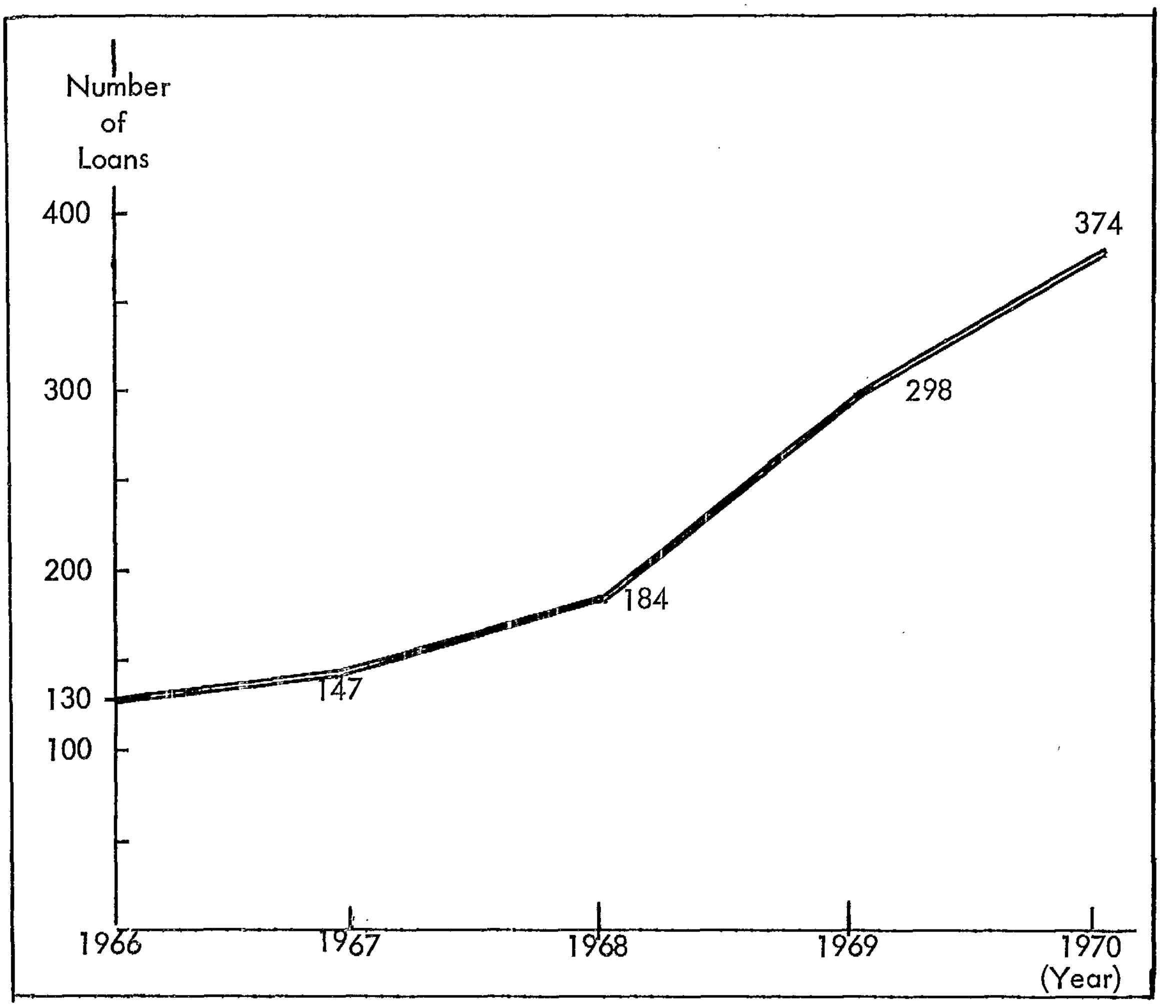
SOURCE: IDB Special Study for Office of Tourism.

Graph E53 shows a dramatic rise in the amount of loans to the "Hotels, Motels and Other Lodgings" category from 1967 to 1969, followed by a slight decline in 1970. *

* The amount rose to $27.9 million in 1971, an increase of 56.2% over 1970.

GRAPH E54

NUMBER OF LOANS ISSUED BY THE IDB TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY



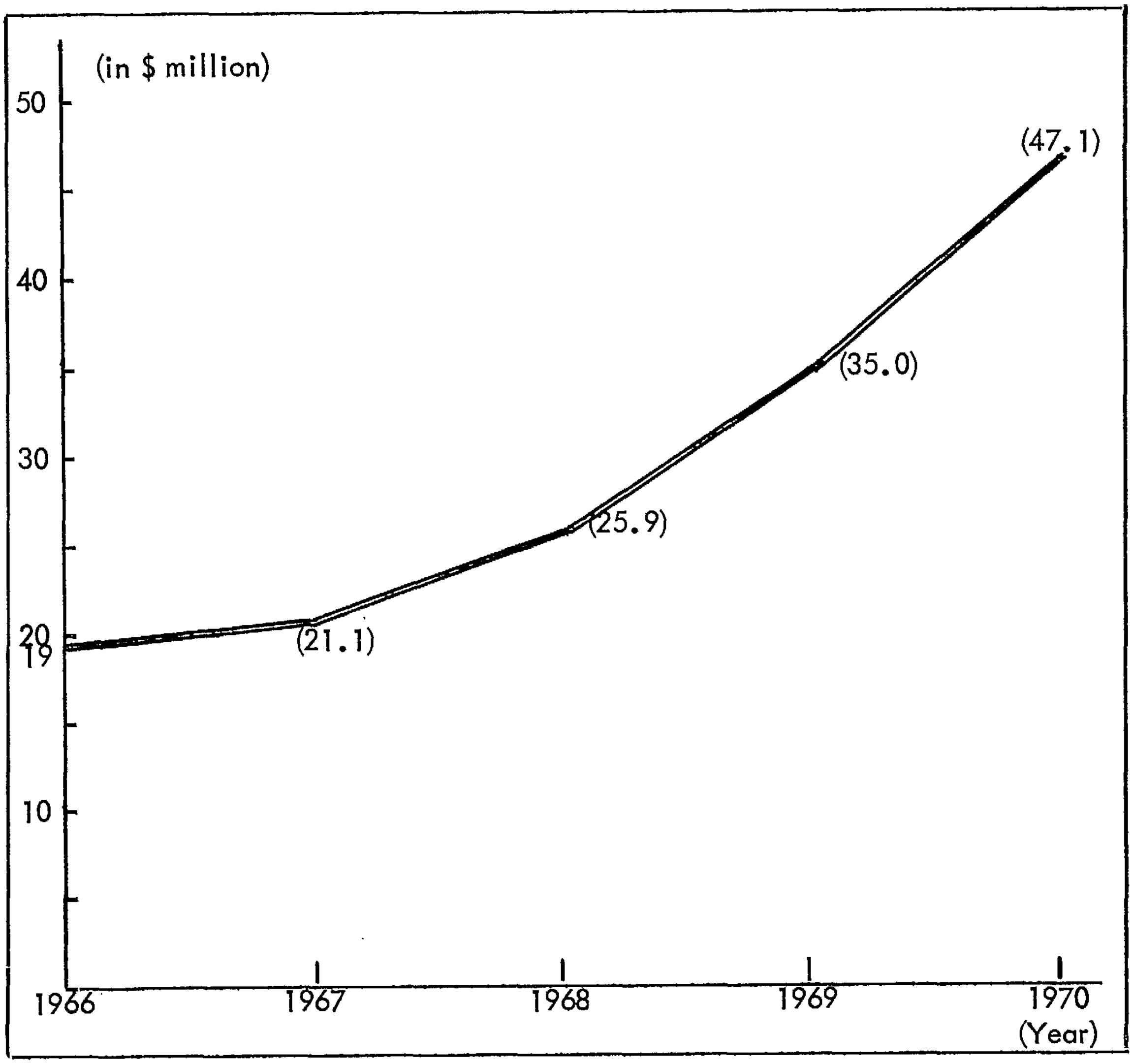
SOURCE: IDB Special Study for the Office of Tourism.

Though the total amount loaned declined in 1970, Graph E54 shows that the number of loans continued its increase. This in itself is a good sign since it seems to indicate that more money is reaching smaller operations which are usually the most seriously disadvantaged when applying to conventional lending sources.*

* The number of loans rose to 431 in 1971.

GRAPH E55

TOTAL AMOUNT OF LOANS OUTSTANDING TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY

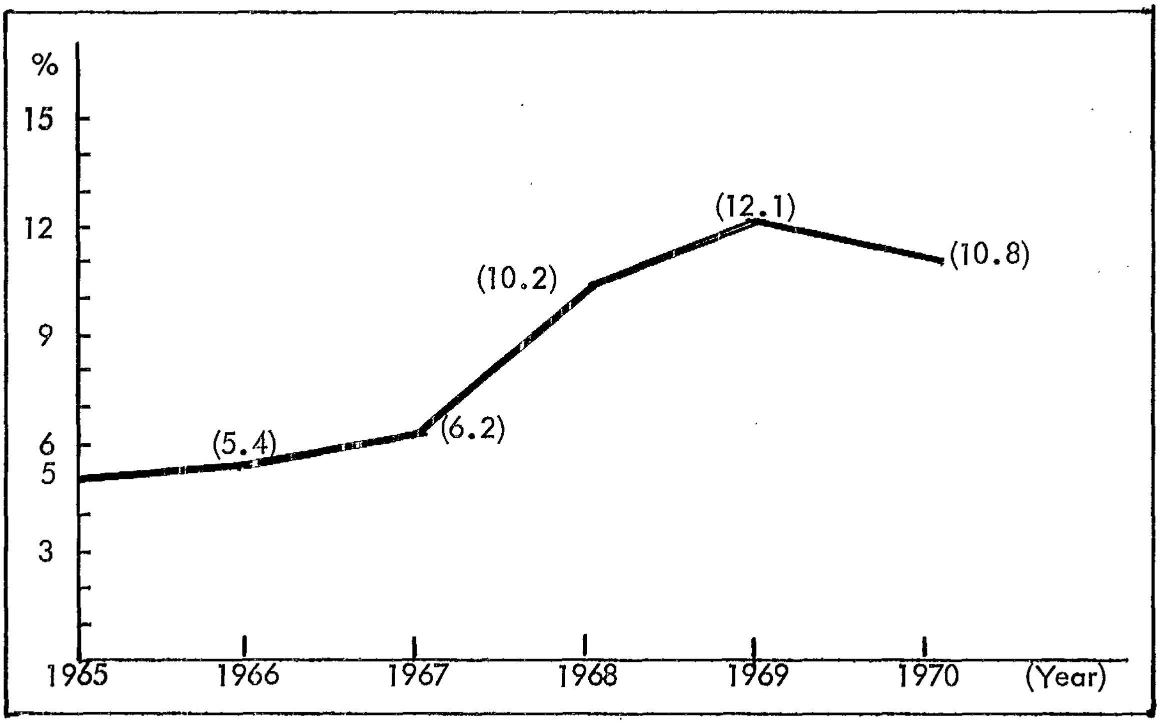


SOURCE: Special IDB Study for the Office of Tourism.

Graph E55 shows that the amount of loans outstanding has been increasing at an increasing rate until, in 1970, it reached $47.1 million.

GRAPH E56

PERCENTAGE OF TOTAL IDB LOANS ISSUED TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY



SOURCE: IDB Annual Report 1970.

Graph E56 indicates that the IDB has increased its lending activity in the accommodation sector relative to its other loan categories (though its activity declined in 1970).*

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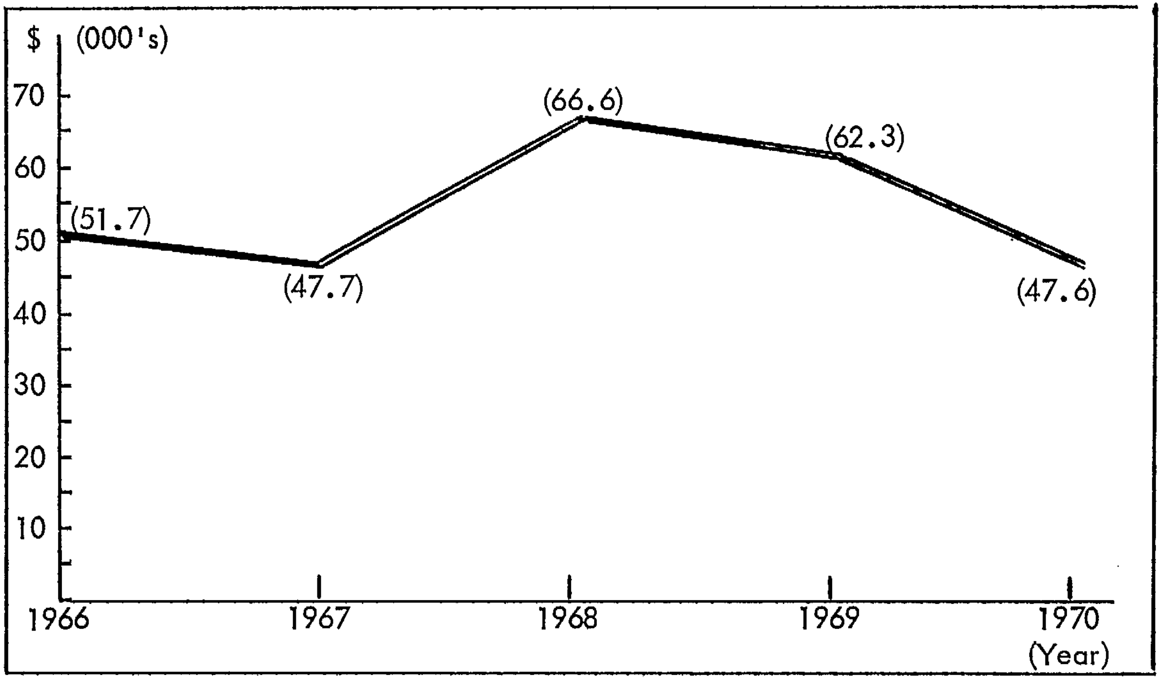
* This proportion increased to 14.2% in 1971.

GRAPH E57

AVERAGE SIZE OF LOANS ISSUED BY THE IDB TO THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY



SOURCE: Special IDB Study for the Office of Tourism.

The average size of loans issued to this category has fluctuated somewhat, but there is no clear trend upwards or downwards. A downward trend would suggest that more money is reaching the smaller operators. Though the trend has been downwards since 1968, in 1970 it stood at approximately the pre-1968 level.*

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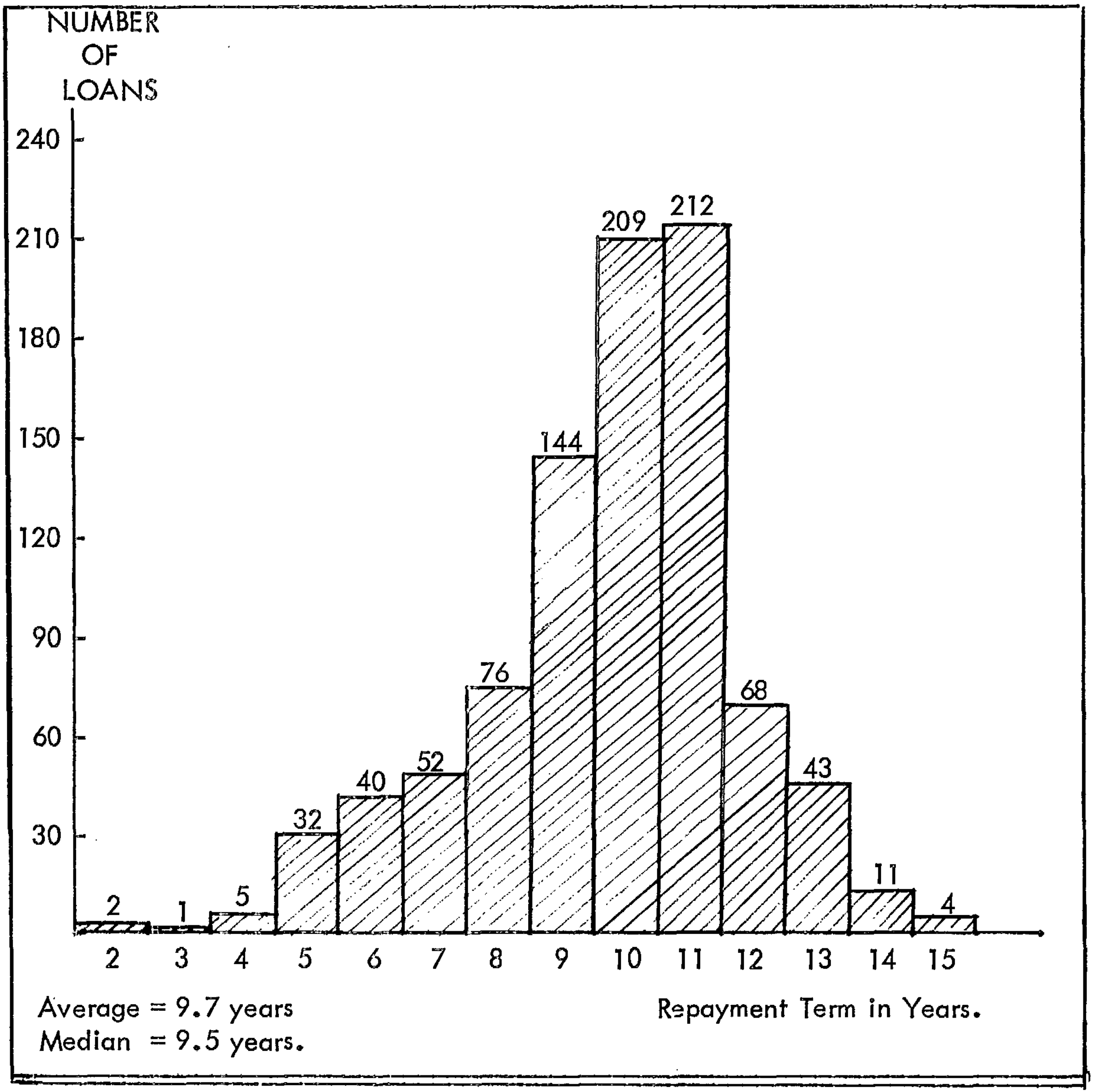
* The average-size loan for 1971 was $65,000.

GRAPH E58

RANGE OF REPAYMENT TERMS OF THE IDB FOR THE "HOTELS, MOTELS, AND OTHER LODGINGS" CATEGORY

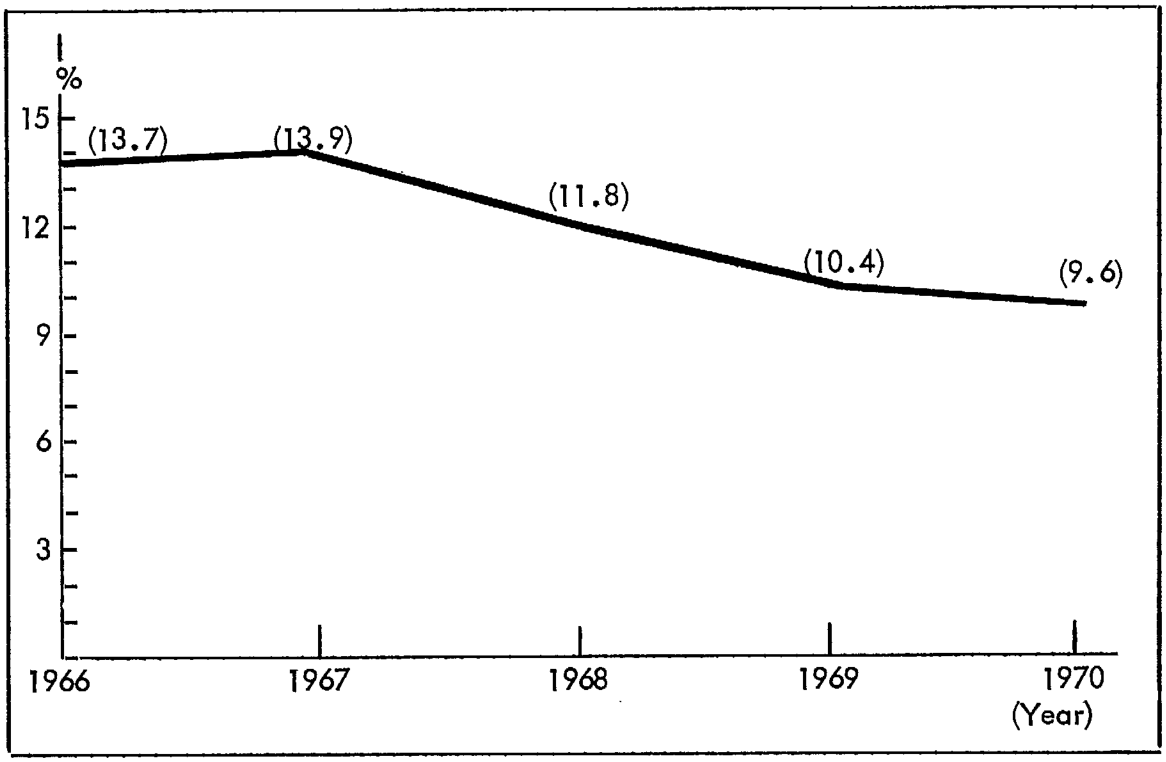


SOURCE: Special IDB Study for the Office of Tourism.

Insufficiently long repayment terms has been a major general complaint of the accommodation sector. Graph E58 shows the repayment terms distribution for 899 loans. The graph shows terms of up to 15 years with an average of 9.7 years and a median of 9.5 years. This indicates that, while the IDB will not generally grant repayment terms of 15 years, it is prepared to grant them when the situation requires it.

GRAPH E59

PERCENTAGE OF TOTAL LOAN APPLICATIONS TO IDB
FOR ALL CATEGORIES WHICH WERE DECLINED



SOURCE: Special IDB Study for the Office of Tourism.

Graph E59 shows that the percentage of unsuccessful applicants to total applicants has been decreasing since 1967. It is difficult to say whether this is due to easier screening procedures on the part of the IDB, better presentation and economic characteristics on the part of applicants, or greater pessimism on the part of would-be applicants. If this downward trend is due to the first two explanations, it is an encouraging sign.

TABLE E60

THE DISTRIBUTION OF IDB OFFICES IN CANADA

NEWFOUNDLAND	1
PRINCE EDWARD ISLAND	0
NOVA SCOTIA	1
NEW BRUNSWICK	2
QUEBEC	8
ONTARIO	9
MANITOBA	1
SASKATCHEWAN	2
ALBERTA	3
BRITISH COLUMBIA	5
CANADA	32 *

SOURCE: IDB Annual Report 1970.

In addition to the 32 permanent IDB offices listed in Table E60, representatives of the IDB periodically visit areas where no offices exist. The visits are publicized well in advance. All offices of the Bank take part in these tours, which, in 1970, numbered 1,250 visits in 337 localities, across Canada.

All in all, the IDB has shown a considerable and growing interest in the accommodation sector in the past, and there are signs which augur an even greater involvement in the future.

* The number of regional offices was increased to 39 in 1971.

Section 6. The Characteristics of the Regional Groups

It was necessary, if meaningful data was to be generated, to combine some of the smaller political entities into regional groups. The groupings have been done in such a way as to try, as much as possible, not to distort the characteristics of any individual political entity. Despite the strains put upon reliability when disaggregation takes place, some disaggregations felt to be useful have been included.

The presentation which follows begins with a general description of the accommodation characteristics of the region in question, then proceeds to its financial and economic characteristics. Some of the data will be repeated from other sections.

The three following tables which pertain to Canada will be useful for comparison with the regional tables which will follow:

TABLE E61

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

CANADA

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	2,687	287	1,444	4,405	8,823	621
Average number of units per operation	17.6	15.7	21.7	16.6	17.7	38.0
Average market value of land and capital per operation	$152,600	$136,500	$194,500	$157,300	$161,239	$522,928
Value of land and capital/unit	$8,680	$8,686	$8,973	$9,491	$9,118	$13,794
Gross income/capital and land value	54%	43%	41%	35%	42%	56%
Average occupancy rate	57%	44%	49%	56%	55%	68%
Net return to land, capital and management	16%	9%	14%	13%	14%	23%
Average original loan	$48,652	$37,780	$60,590	$42,477	$46,978	$138,542
Average present credit needed	-	$49,262	$96,120	$41,293	$54,568	$123,326
Average debt outstanding	$49,000	$40,646	$64,244	$46,990	$50,453	$155,620
Average owner equity	$103,500	$95,900	$130,200	$110,300	$110,786	$367,308
Equity ratio	68%	70%	67%	70%	69%	70%
% of gross receipts which could be repaid towards loans *	13%	12%	18%	13%	14%	13%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E62

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

CANADA

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 ** UNITS	GRAND TOTAL	" HIGHEST-NET-INCOME" GROUP
Total number of operations	3,409	3,929	1,185	300	8,823	621
Average number of units per operation	6.9	16.7	36.5	79.1	17.7	38.0
Average market value of land and capital per operation	$80,235	$124,542	$327,270	$906,500	$161,239	$522,928
Value of land and capital/unit	$11,679	$7,458	$8,966	$11,460	$9,118	$13,794
Gross income/capital and land value	29.7%	39.8%	55.3%	40.6%	42.0%	56.0%
Average occupancy rate	52%	55%	61%	62%	55%	68%
Net return to land, capital and management	9.5%	12.7%	14.7%	15.6%	14.0%	23%
Average original loan	$18,403	$36,891	$107,920	$238,267	$46,978	$138,542
Average present credit needed	$23,215	$55,214	$109,196	$212,453	$54,568	$123,326
Average debt outstanding	$19,707	$42,689	$111,955	$229,034	$50,453	$155,620
Average owner equity	$60,528	$81,853	$215,315	$677,466	$110,786	$367,308
Equity ratio	75%	66%	66%	75%	69%	70%
% of gross receipts which could be repaid towards loans *	12%	15%	15%	12%	14%	13%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E63

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

CANADA

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (84.3% of Total)		
PRIVATE	55.8%	$48,771
MORTGAGE CO	22.6%	$95,433
BANK	9.3%	$28,305
IDB	5.7%	$53,802
PROV. GOV'T	2.0%	$82,163
FINANCE CO	0.8%	$35,932
OTHER	3.8%	$36,373
SECONDARY (15.7% of Total)		
PRIVATE	48.6%	$26,183
BANK	39.3%	$15,521
IDB	4.6%	$34,014
FINANCE CO	1.6%	$9,456
MORTGAGE CO	0.9%	$18,016
PROV. GOV'T	0.2%	$30,000
OTHER	4.8%	$39,807

SOURCE: Memorandum of Interview.

(a) THE ATLANTIC PROVINCES

It was necessary to aggregate some of the Atlantic Provinces data so as to have a statistically significant sample. The individuality of each province has been maintained whenever possible.

The Atlantic Provinces together contain approximately 8.2% of Canada's accommodation operations. As Table E64 suggests, Newfoundland tends to be hotel- and "others"-intensive; Prince Edward Island, "others"-intensive; Nova Scotia motel- and campgrounds-intensive, and New Brunswick, motel-intensive:

TABLE E64

DISTRIBUTION OF OPERATIONS BY TYPE

	Distribution of Total Accommodation	Motels	Hotels*	Others	Campgrounds
Canada	100%	27.3%	29.5%	31.2%	12.0%
Newfoundland	1.2%	16.1%	40.3%	41.9%	1.6%
Prince Edward Island	2.4%	17.5%	8.2%	67.7%	6.5%
Nova Scotia	2.0%	36.1%	28.3%	13.4%	22.2%
New Brunswick	2.6%	42.7%	17.6%	32.2%	7.5%

* "Hotels" includes Tourist Homes of more than 5 units.

SOURCE: Preliminary Mail-Out Survey.

The Atlantic Provinces' motels, hotels and "others" are distributed according to the following sizes:

TABLE E65

DISTRIBUTION OF OPERATIONS BY SIZE

Size	Atlantic Provinces	Canada	Nfld	PEI	NS	NB
Less than 11 Units	58.7%	38.6%	81.1%	75.3%	59.6%	36.3%
11 to 25 Units	27.6%	44.5%	13.5%	20.0%	12.8%	50.0%
26 to 50 Units	9.6%	13.4%	0.0%	4.0%	20.6%	9.5%
51 to 100 Units	4.2%	3.4%	5.4%	1.0%	7.1%	4.2%

SOURCE: Memorandum of Interview.

Table E66 shows the distribution of each Atlantic Province among the "Present Credit Need" groups:

TABLE E66

PRESENT CREDIT NEED AT THE TIME OF INTERVIEW

	NO NEED FOR CREDIT	NEEDED CREDIT (*)		
		TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	30.7%	3.2%	16.4%	49.7%
NFLD	48.6%	37.8%	5.4%	8.1%
PEI	81.3%	0.6%	11.0%	7.1%
NS	40.5%	5.2%	5.8%	48.6%
NB	23.2%	6.2%	14.4%	56.2%

(*) Including Campgrounds. SOURCE: Memorandum of Interview.

Newfoundland had a success rate of 87.5% among those who tried to borrow, satisfying 55.6% of their total present credit need. Nova Scotia and New Brunswick had respective success rates of 47.4% and 30.0%, respectively satisfying 20.5% and 1.9% of their present credit need. The Atlantic Provinces accounted for 6.7% of total reported present credit need for Canada for a total dollar need of approximately $53.7 million.

Table E67 shows the total amount of present credit need reported by each Atlantic Province along with the average amount of each loan:

TABLE E67

TOTAL CREDIT NEED AND AVERAGE SIZE OF LOAN FOR THE ATLANTIC PROVINCES

	PROPORTION OF TOTAL PRESENT CREDIT NEED	TOTAL PRESENT CREDIT NEED	AVERAGE SIZE OF NEEDED LOAN
CANADA	100%	$796 million	$53,000
NFLD	0.7%	$5.7 million	$66,000
PEI	0.4%	$3.1 million*	$47,000
NS	2.4%	$19.3 million	$82,000
NB	3.2%	$25.5 million	$75,000

SOURCE: Memorandum of Interview.

Of the amounts expressed in Table E67, the following amounts had already been obtained by successful applicants: **

TABLE E68

AMOUNT OBTAINED OF PRESENT CREDIT NEED

CANADA	$32.8 million
NFLD	$ 3.2 million
PEI	$ 0.2 million
NS	$ 4.0 million
NB	$ 0.5 million

SOURCE: Memorandum of Interview.

Table E68 demonstrates that the Atlantic Provinces had satisfied 14.5% of the total credit need expressed at the time of interview.

Table E69 shows the source, relative activity of that source, and average size of loan, for both primary and secondary loans issued in the Atlantic Provinces in the years preceding the interview.

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* There is reason to believe that PEI's reported credit need was underestimated by one-half, so that her real credit need may be closer to $6.5 million.

** These figures should be viewed with caution due to the small sampling which this group represents.

TABLE E69

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

ATLANTIC PROVINCES

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (88.3% of Total)		
PRIVATE	17.0%	$60,738
MORTGAGE CO	30.7%	$62,241
BANK	13.2%	$32,025
IDB	7.7%	$23,200
PROV. GOV'T	28.8%	$72,175
FINANCE CO	0.7%	$11,000
OTHER	2.0%	$20,779
SECONDARY (11.7% of Total)		
PRIVATE	35.5%	$22,222
BANK	35.9%	$27,611
IDB	3.0%	$30,000
FINANCE CO	6.1%	$61,500
MORTGAGE CO	-	-
PROV. GOV'T	7.5%	$30,000
OTHER	12.0%	$14,118

SOURCE: Memorandum of Interview.

Table E69 shows a different financing pattern for the Atlantic Provinces from that of Canada. All the Atlantic Provinces, save New Brunswick, had very active provincial government financing agencies in the years preceding the interview, so that over 25% of the total funds lent to the accommodation sector emanated from this source. Since the IDB had contributed 7.7% of total primary loans, it is clear that the public sector accounts for a very high level of participation in the accommodation sector*.

Conventional lenders accounted for approximately 40% of the funds lent, which is higher than the Canadian average. Another major deviation from the Canadian norm is the very low percentage accounted for by "private" sources. This may indicate a low ownership turnover for the Atlantic Provinces. The large loans are provided by "private" sources, mortgage companies and the provincial government agencies, the latter providing the largest average loans at $72,175.

Table E70 shows the reasons why loans did not materialize for the "Needed, Tried, but Did Not Get Credit" group for each Atlantic province:

TABLE E70

REASONS GIVEN BY

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

WHY LOANS WERE DECLINED

PROVINCES	NFLD	PEI	NS	NB	CANADA
INSUFFICIENT EQUITY	-	5.9%	30.0%	10.7%	24.6%
INSUFFICIENT AMOUNT	-	29.4%	40.0%	3.6%	10.0%
HIGH INTEREST	-	35.2%	30.0%	75.0%	53.4%
SHORT TERM	-	-	20.0%	92.8%	47.1%
OTHER	100%	41.1%	30.0%	-	23.1%

SOURCE: Memorandum of Interview.

* The IDB reported that it had granted a total of 132 loans amounting to $5.3 million to the "Hotels, Motels and Other Lodgings" category in the Atlantic Provinces, from 1966 to 1970.

The respondents in this group for each province represent a very small part of an already relatively small number. Newfoundland, for example, has only 2 unweighted operations representing this group. Consequently Tables E69 and E70 should be viewed with a dash of skepticism. Nevertheless, certain patterns do emerge. Prince Edward Island, Nova Scotia, and Newfoundland all show a high incidence of "Other" as the explanation why a loan did not materialize. The highest specific reasons in "Other" were cases such as "no funds available" and "bad location", clearly cases where lenders turn down applicants.

New Brunswick was the only Atlantic province in which there was an inordinate number of complaints of "High Interest" and "Short Term", though the percentages for the other reasons are not low. There were also higher-than-proportional reports of "Insufficient Amount" in Prince Edward Island and Nova Scotia and a generally low incidence of complaints about "Insufficient Equity" in Prince Edward Island and New Brunswick. Judging from the proportion of borrower-applicants who reported "High Interest", "Short Term" and "Insufficient Amount" as reasons why loans were declined, it would seem that a sizeable part of this group of Atlantic Province operators could have obtained credit if their projects warranted the acceptance of current market terms.

Table E71 shows the sources to which the "Needed, Tried, but Did Not Get Credit" group applied:

TABLE E71

FINANCING SOURCES APPLIED TO BY

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	NFLD	PEI	NS	NB	CANADA
BANK	-	35.2%	40.0%	78.6%	56.2%
MORTGAGE CO.	-	-	10.0%	71.4%	25.8%
IDB	100%	35.2%	30.0%	25.0%	40.3%
PROV. GOV'T	25.0%	58.8%	80.0%	-	9.0%
PRIVATE	-	-	-	71.4%	15.6%
FINANCE CO.	-	-	-	64.2%	8.6%
OTHER	-	-	-	-	6.4%

SOURCE: Memorandum of Interview.

The results of this table have been elaborated upon in the previous section. It should be pointed out, however, that New Brunswick, which has no provincial lending authority, differs radically from the source pattern in the other Atlantic Provinces. There is a very high incidence of applications to "private" sources and to finance companies, sources which were not considered in the other three provinces. Furthermore, there was also a much higher incidence of applications to conventional sources, and a low 25% to the IDB.

The following graphs show the movement of the interest rates of different credit sources for each Atlantic Province. The general trend is unmistakably upwards. Some of the more erratic trends can be attributed to a low number of observations. The reasons for this general upward movement have been discussed in Part E, Section 4. Each graph is accompanied by a table which gives the average interest rate and repayment period by year and source, and the number of operators involved in each average.

The following graphs can be compared with Graph E43. The small number of observations in the Atlantic Provinces does not allow for more than a superficial comparison. It should be noted, however, that the provincial lending agencies in Nova Scotia and Prince Edward Island appear to grant an interest subsidy. This is tantamount to the government's absorbing the inflationary rate (which was described earlier as not being a real cost) or the risk.

TABLE E72

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

NEWFOUNDLAND

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	6.3% (3)	2.0 (3)							7.0% (1)	7.0 (1)		
1967	10.0% (2)	4.0 (2)										
1968					7.0% (2)	10.0 (2)			10.0% (1)	10.0 (1)	15.0% (1)	3.0 (1)
1969	9.7% (11)	3.1 (11)					23.0% (1)	2.0 (1)	9.3% (4)	7.0 (4)		
1970	9.0% (4)	5.1 (4)										

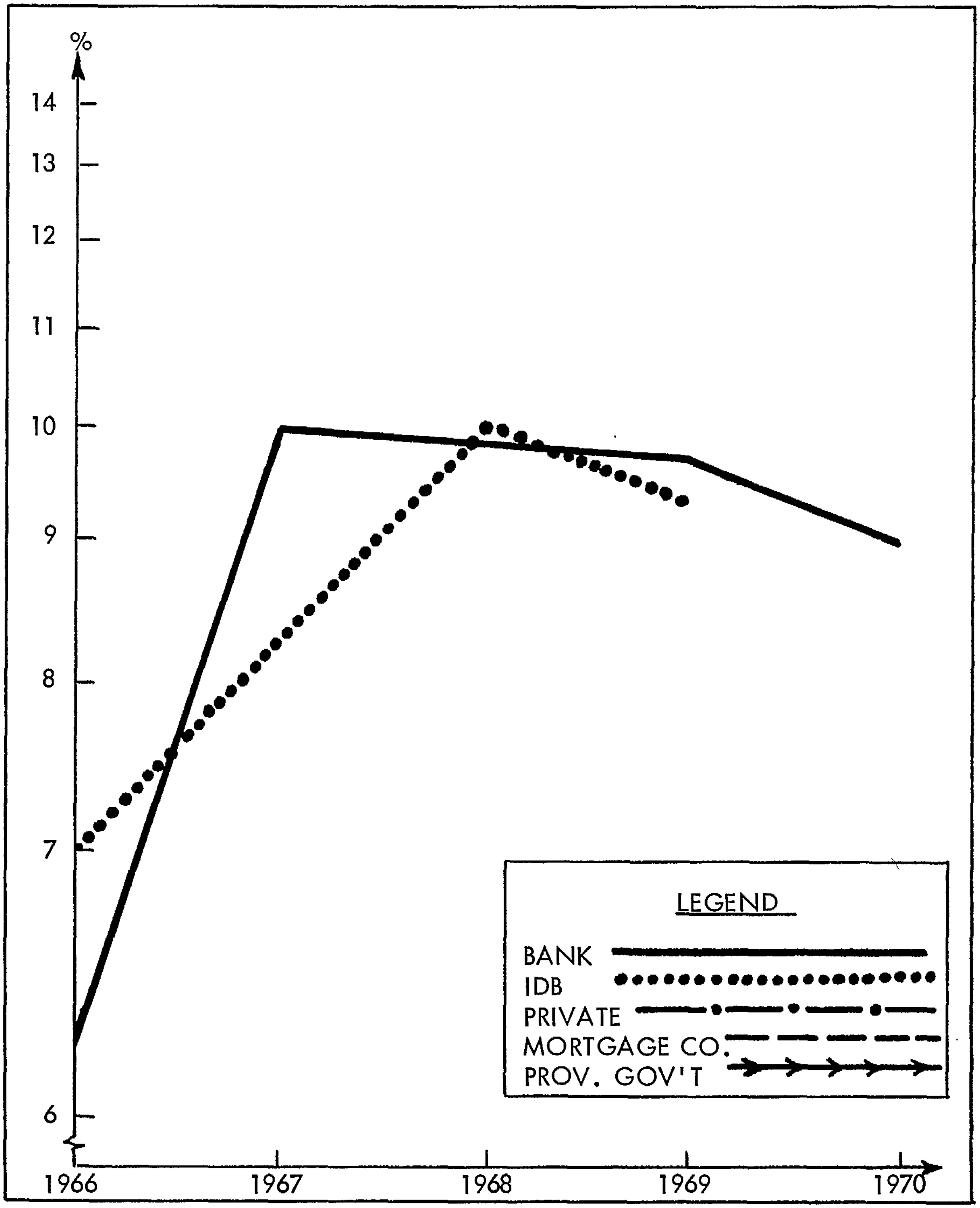
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E73

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

NEWFOUNDLAND



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

TABLE E74

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

PRINCE EDWARD ISLAND

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	6.0% (1)	5.0 (1)	7.5% (2)	15.0 (2)					7.0% (1)	10.0 (1)		
1967	7.3% (4)	3.0 (4)	6.0% (1)	12.0 (1)					9.0% (1)	10.0 (1)		
1968	8.6% (7)	5.4 (7)	6.4% (5)	11.0 (5)	6.0% (1)	0.5 (1)			9.0% (2)	12.5 (2)		
1969	8.2% (6)	11.1 (6)	7.0% (3)	13.3 (3)					10.0% (1)	15.0 (1)	10.0% (1)	15.0 (1)
1970	9.5% (2)	2.0 (2)	8.5% (2)	12.5 (2)	9.0% (1)	15.0 (1)					18.0% (2)	3.0 (2)

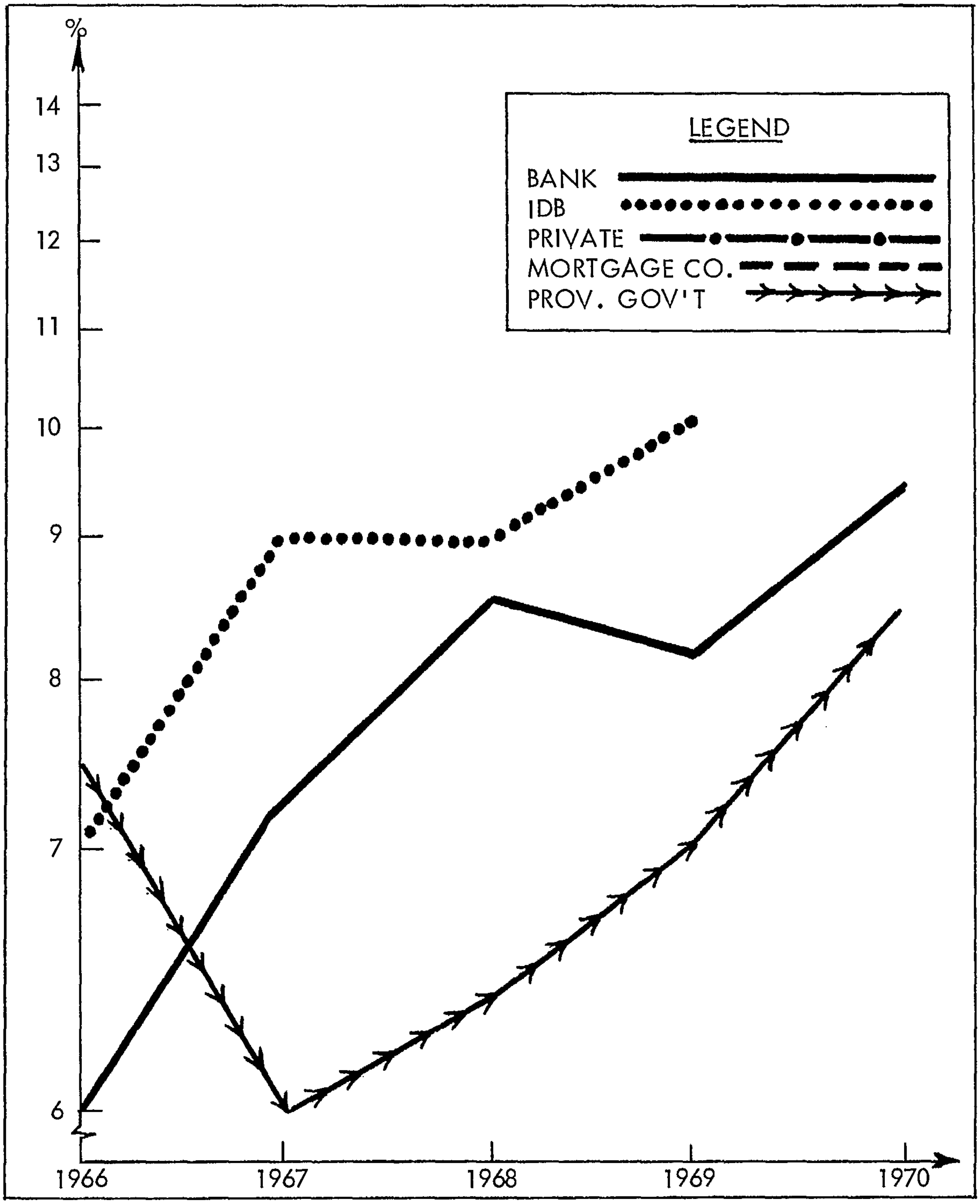
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E75

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

PRINCE EDWARD ISLAND



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

TABLE E76

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

NOVA SCOTIA

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	7.3% (3)	5.3 (3)	6.0% (3)	13.6 (3)					8.0% (2)	8.5 (2)		
1967	7.7% (7)	5.4 (7)	6.9% (7)	17.9 (7)	8.0% (2)	7.5 (2)	8.0% (2)	17.5 (2)	8.0% (1)	10.0 (1)		
1968	8.5% (4)	12.8 (4)	7.0% (3)	20.0 (3)								
1969	9.3% (10)	4.8 (10)	7.3% (8)	16.9 (8)	9.0% (1)	25.0 (1)	9.0% (2)	17.5 (2)	9.5% (4)	11.0 (4)	12.0% (3)	4.2 (3)
1970	9.4% (12)	3.3 (12)	9.0% (4)	20.0 (4)			11.0% (4)	16.3 (4)	10.0% (1)	7.0 (1)	24.0% (1)	3.0 (1)

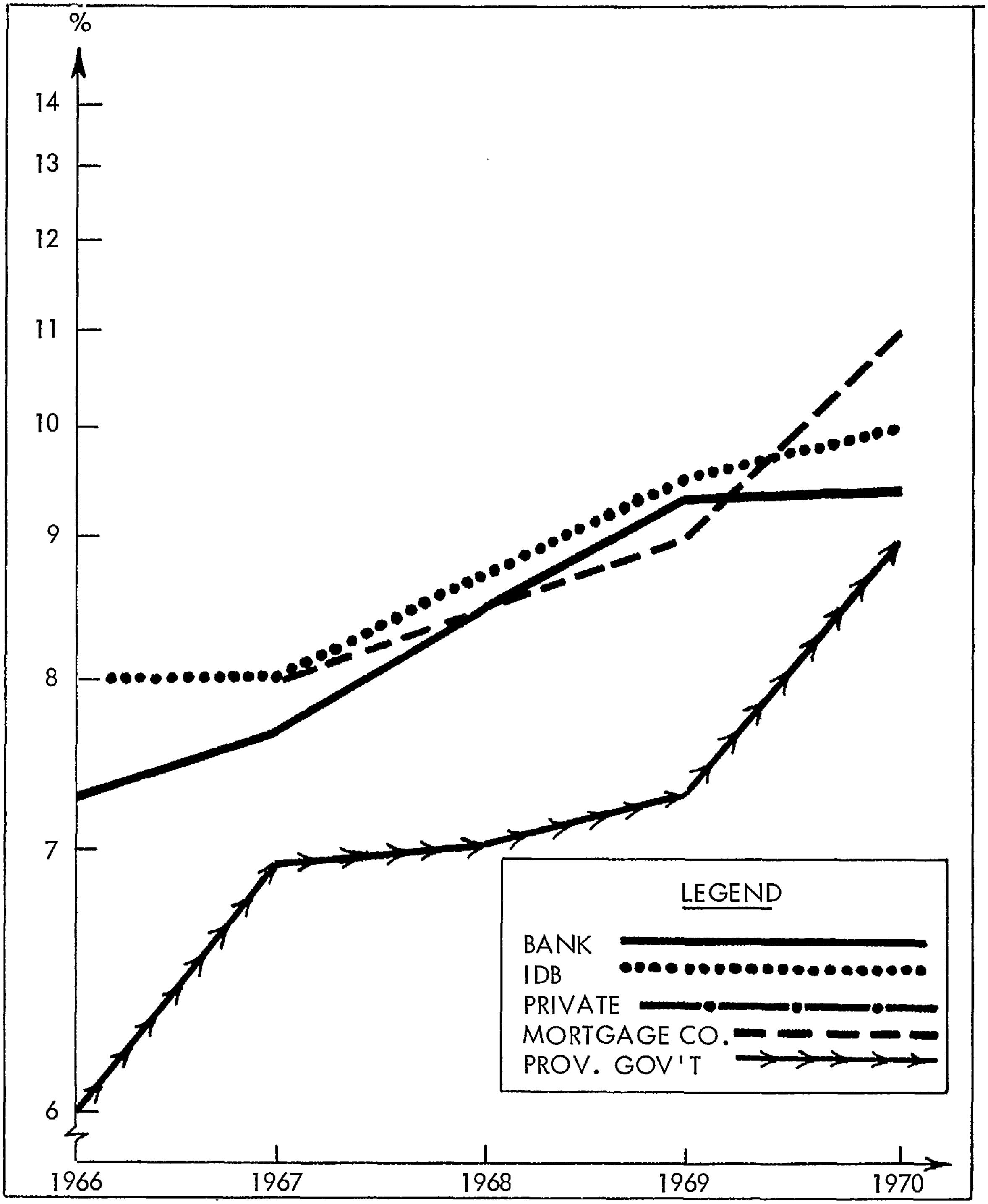
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E77

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

NOVA SCOTIA



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

TABLE E78

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

NEW BRUNSWICK

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	7.5% (2)	3.8 (2)			7.0% (1)	15.0 (1)	8.0% (1)	12.0 (1)	7.0% (4)	8.5 (4)		
1967	8.5% (8)	3.9 (8)							7.0% (2)	9.0 (2)		
1968	8.4% (9)	3.4 (9)			7.0% (2)	4.0 (2)	8.8% (4)	12.5 (4)	7.0% (1)	10.0 (1)	5.5% (4)	11.8 (4)
1969	9.6% (19)	2.9 (19)					9.7% (7)	17.1 (7)	8.8% (9)	8.6 (9)	9.0% (1)	5.0 (1)
1970	9.9% (15)	3.0 (15)			10.0% (1)	7.0 (1)	11.5% (4)	7.5 (4)	10.0% (1)	10.0 (1)		

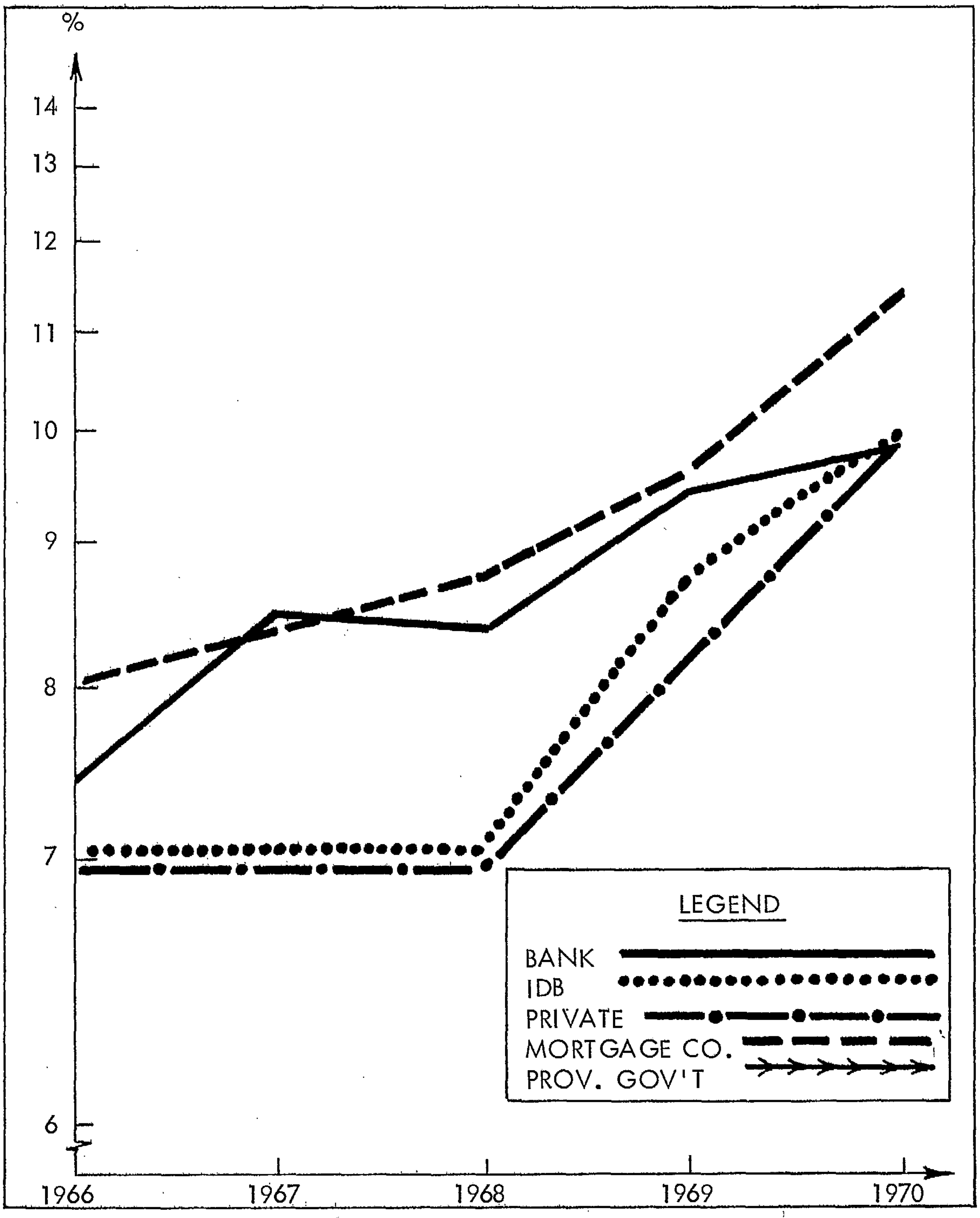
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E79

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

NEW BRUNSWICK



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

Accommodation operations in the Atlantic Provinces are characterized by a low gross productivity. The following table allows a comparison of the gross receipts to capital and land value between the Atlantic Provinces and other Canadian regions.

TABLE E80

COMPARISON OF GROSS RECEIPTS PER $100 CAPITAL AND LAND VALUE BY REGION (HOTEL, MOTEL & OTHER)

	"HIGHEST-NET-INCOME" GROUPS	PROVINCIAL AVERAGES
ATLANTIC PROVINCES	28%	31%
QUEBEC	77%	52%
ONTARIO	51%	37%
PRAIRIES, YT&NWT	39%	46%
BRITISH COLUMBIA	111%	44%
CANADA	56%	42%

SOURCE: Memorandum of Interview.

This result is not too surprising considering that the Atlantic Provinces probably have a smaller proportion of non-seasonal attractions than any other region.

The average number of units per operation in the Atlantic Provinces is 15.7, distinctly below the Canadian average of 17.7 and less than half the average size of the Atlantic Region's "highest-net-income" group of 34. The occupancy rate is a high 61% (compared to the Canadian average of 55%) with little variation among "Credit Need" or size groups. Despite this high occupancy rate, the net return to capital, land and management is only 9%, well below the national average of 14%. These results are quite consistent with one another when it is considered that the acute seasonality of the Atlantic Provinces affects net return, but seasonality is not reflected in the reported occupancy rates which were computed on the basis of months of operation only.

Low gross productivity in the Atlantic Provinces is due not only to inadequate size and a short season, but also to low gross productivity per unit. The following table compares the relative availability of accommodation services and facilities in various groups of operations in the Atlantic Provinces and the "highest-net-income" group in Canada.

TABLE E81

COMPARISON OF THE AVAILABILITY OF SERVICES AND FACILITIES BETWEEN VARIOUS GROUPS OF HOTELS, MOTELS AND OTHER ACCOMMODATION

ATLANTIC PROVINCES

	Less than 11 Units	11 to 25 Units	26 to 50 Units	51 to 100 Units	Total	Regional "Highest-Net-Income" Group	Canada's "Highest-Net-Income" Group
Number of Operations	326	153	53	23	555	39	621
% Net Return/Capital and Land Value	7.3%	9.5%	5.6%	34.1%	9%	15%	23%
% of Operations with Swimming Pools	0%	2.0%	11%	35%	3%	13%	7%
% of Operations with Convential Halls	1%	15%	23%	57%	9%	15%	27%
% of Operations with Licensed Lounges	9%	28%	68%	91%	22%	54%	75%
% of Operations with Dining Rooms	33%	75%	75%	87%	52%	67%	81%
% of Operations with Coffee Shops	7%	17%	23%	61%	13%	26%	34%

SOURCE: Memorandum of Interview.

It is not clear that expanding ancillary services in highly seasonal operations would raise net income. This would require additional study.

The economic viability of the accommodation sector in the Atlantic Provinces appears to depend upon three factors:

- the opportunities open to the operators for increasing their size of operation;

- the ability of the operators to assess on the basis of sound partial budgeting techniques, the profitability of the additional investment;

- the ability of the region to level out tourism demand into the off-season.

Considering the high equity ratio (80%) of the "Needed, Tried but Did Not Get Credit" group (compared to the 69% Canadian average), its low 29% gross receipts to capital and land value, and the lack of accommodation services and facilities (see Table E82) offered by this group, management would appear to require amelioration in the Atlantic Provinces.

TABLE E82

COMPARISON OF SERVICES AND FACILITIES BETWEEN VARIOUS GROUPS OF HOTELS, MOTELS AND OTHER ACCOMMODATION ATLANTIC PROVINCES

	No Need for Credit	Needed, Tried and Got Credit	Needed, Tried, but Did Not Get Credit	Needed, but Did Not Try to Get Credit	Total	Regional "Highest-Net-Income" Group	Canada's "Highest-Net-Income" Group
Number of Operations	260	50	56	189	555	39	621
% Net Return/Capital and Land Value	6%	7%	10%	11%	9%	15%	23%
% of Operations with Swimming Pools	2%	10%	0%	5%	3%	13%	7%
% of Operations with Convention Halls	2%	10%	4%	21%	9%	15%	27%
% of Operations with Licensed Lounges	8%	10%	25%	44%	22%	54%	75%
% of Operations with Dining Rooms	30%	88%	52%	71%	52%	67%	81%
% of Operations with Coffee Shops	2%	0%	38%	25%	13%	26%	34%

SOURCE: Memorandum of Interview.

TABLE E83

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

ATLANTIC PROVINCES

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	260	50	56	189	555	39
Average number of units per operation	11.4	12.4	15.4	22.5	15.7	34.0
Average market value of land and capital per operation	$76,100	$99,100	$172,700	$177,100	$122,300	$315,513
Value of land and capital/unit	$6,691	$8,005	$11,233	$7,865	$7,809	$9,429
Grossincome/capital and land value	22%	23%	29%	37%	31%	28%
Average occupancy rate	61%	55%	69%	59%	61%	67%
Net return to land, capital and management	6%	7%	10%	11%	9%	15%
Average original loan	$38,683	$21,333	$27,881	$59,692	$44,745	$56,352
Average present credit needed	-	$68,460	$145,671	$61,297	$78,528	$244,615
Average debt outstanding	$34,588	$10,429	$34,320	$56,626	$42,298	$41,212
Average owner equity	$41,500	$88,700	$138,400	$120,400	$79,702	$274,301
Equity ratio	55%	89%	80%	68%	65%	87%
% of gross receipts which could be repaid towards loans *	12%	9%	15%	16%	13%	17%

* As reported by operators.

SOURCE: Memorandum of Interview.

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TABLE E84

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

ATLANTIC PROVINCES

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	326	153	53	23	555	39
Average number of units per operation	7.2	17.9	38.4	67.9	15.7	34.0
Average market value of land and capital per operation	$58,300	$122,200	$343,400	$513,000	$122,300	$315,513
Value of land and capital/unit	$8,137	$6,832	$8,839	$7,559	$7,789	$9,429
Gross income/capital and land value	25.3%	26.2%	33.5%	39.8%	31%	28%
Average occupancy rate	60.2%	59.4%	65.1%	61.1%	61%	67%
Net return to land, capital and management	7.3%	9.5%	5.6%	34.1%	9%	15%
Average original loan	$13,894	$31,835	$84,040	$147,023	$44,745	$56,352
Average present credit needed	$48,960	$57,804	$194,684	$172,842	$78,528	$244,615
Average debt outstanding	$17,226	$29,077	$69,663	$160,665	$42,298	$41,212
Average owner equity	$41,074	$93,123	$273,737	$352,335	$79,702	$274,301
Equity ratio	70.5%	76.2%	79.7%	68.7%	65%	87%
% of gross receipts which could be repaid towards loans *	11.9%	16.7%	11.7%	14%	13%	17%

* As reported by operators.

SOURCE: Memorandum of Interview.

(b) QUEBEC

Quebec contains approximately 21% of Canada's accommodation operations. As the following table shows, it tends to be hotel- and campground-intensive relative to Canada:

TABLE E85

DISTRIBUTION OF OPERATIONS BY TYPE

	Distribution of Total Accommodation	Motels	Hotels	Others	Campgrounds
CANADA	100%	27.3%	29.5%	31.2%	12.0%
QUEBEC	21%	17.1%	51.1%	15.2%	16.5%

SOURCE: Preliminary Mail-Out Survey.

Its motels, hotels and "others" are distributed according to the following size classes:

TABLE E86

DISTRIBUTION OF OPERATIONS BY SIZE

SIZE	QUEBEC	CANADA
LESS THAN 11 UNITS	36.8%	38.6%
11 TO 25 UNITS	53.8%	44.5%
26 TO 50 UNITS	6.1%	13.4%
51 TO 100 UNITS	3.3%	3.4%

SOURCE: Memorandum of Interview.

Table E86 shows that Quebec compares with the Canadian average insofar as distribution in the smallest and largest size operations goes, but that it tends to have a proportionately larger representation in the 11-to-25-units size establishments, than is generally true. This tends to reduce the number of units in the average-size establishment and thus, profitability, which to a point, is closely related to size.

Though at the time of interview a smaller percentage of Quebec operators expressed a need for credit than in Canada as a whole, those that needed it were more likely to attempt to borrow it than was generally true. The following table demonstrates the distribution of "Present Credit Need" groups in Quebec compared with Canada:

TABLE E87 PRESENT CREDIT NEED AT THE TIME OF INTERVIEW

	NO NEED FOR CREDIT	NEEDED CREDIT		
		TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	30.7%	3.2%	16.4%	49.7%
QUEBEC	43.4%	0.8%	21.4%	34.4%

SOURCE: Memorandum of Interview.

Table E87 shows that Quebec operators showed less tendency to have a credit need than the national average, but of the 56.6% who reported a need, a higher proportion (39.1%) attempted to borrow it than in Canada as a whole (28.2%). Of those who tried to borrow, a smaller proportion of loans materialized than in Canada as a whole.

Of the total dollar amount of "Present Credit Needs" for all types of accommodation, 18.8% was in Quebec with an average requirement of $58,000 versus $53,000 for Canada. Borrowers were able to satisfy a low 1.5% of a total reported dollar need of approximately $150 million.

Table E88 shows the source, relative activity of that source, and average size of loan, for both primary and secondary loans issued in Quebec in the years preceding the interview.

TABLE E88

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

QUEBEC

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (86% of Total)		
PRIVATE	68.0%	$47,523
MORTGAGE CO	1.9%	$49,118
BANK	8.2%	$14,358
IDB	11.5%	$57,414
PROV. GOV'T	0.2%	$8,000
FINANCE CO	1.8%	$24,091
OTHER	8.4%	$34,745
SECONDARY (14% of Total)		
PRIVATE	49.6%	$19,140
BANK	27.3%	$11,969
IDB	11.6%	$33,200
FINANCE CO	11.1%	$14,619
MORTGAGE CO	-	-
PROV. GOV'T	-	-
OTHER	0.5%	$8,000

SOURCE: Memorandum of Interview.

The table shows a different financing pattern for Quebec from that of Canada. Again, private sources account for the lion's share, but to a considerably higher degree than in Canada generally. The IDB places second with 11.5% of total financing. This, in spite of the fact that the "Needed, Tried, but Did Not Get Credit" group reported a smaller portion of applicants from Quebec applying to the IDB (20.8%) to finance present requirements, than for any other province in Canada*. Furthermore, the IDB, in the years preceding the interview, was the source of the largest average loans (average size $57,414). Conventional lenders have been important. A relatively high "other" in the primary loans section may be accounted for by the ubiquity of "caisses populaires" in the province of Quebec.

The "Needed, Tried, but Did Not Get Credit" group expressed a higher incidence of "Insufficient Equity", "Insufficient Amount", "High Interest", and "Short Term" than generally true in Canada. This is shown in Table E89:

TABLE E89

REASONS GIVEN BY
THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP
WHY LOANS WERE DECLINED

	QUEBEC	CANADA
INSUFFICIENT EQUITY	34.4%	24.6%
INSUFFICIENT AMOUNT	15.4%	10.0%
HIGH INTEREST	78.2%	53.4%
SHORT TERM	75.1%	47.1%
OTHER	7.2%	23.1%

SOURCE: Memorandum of Interview.

* The sampling has definitely yielded an overestimate of the IDB activity in Quebec.

"Insufficient Equity" describes a situation where the lender turns down a borrower; "Insufficient Amount" describes a situation where the lender would probably accord the borrower some part of the loan but not the whole amount applied for; "High Interest" and "Short Term" are clearly cases where the borrower declines the loan. This appears to account for most "Unsuccessful" loan applications in Quebec and Canada, though this is much more clearly the case in Quebec. This could be due to higher interest rates, or more conservative operators.

Table E90 shows the sources to which the "Needed, Tried, but Did Not Get Credit" group applied:

TABLE E90

FINANCING SOURCES APPLIED TO BY
THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	QUEBEC	CANADA
BANK	70.7%	56.2%
MORTGAGE CO.	7.2%	25.8%
IDB	20.8%	40.3%
PROV. GOV'T	15.4%	9.0%
PRIVATE	8.9%	15.6%
FINANCE CO.	19.9%	8.6%
OTHER	-	6.4%

SOURCE: Memorandum of Interview.

It has been shown earlier that the past pattern of lending evidenced a low reliance on conventional lenders. In Table E90, the banks are by far the largest single source to which respondents applied. Two other rather surprising observations emerge: the IDB, which, in the years preceding the interview, had reportedly financed a greater proportion of the accommodation sector in Quebec than in any other province (11.5%)*, was approached by a lower percentage of applicants (20.8%) than in any other province (Canadian average is 40.3%); and "private" sources account for only 8.9% of sources applied to. This latter observation is consistent with our hypothesis of ex-owner financing new owner. Finance companies, which charge notoriously high rates of interest, were approached by almost as many applicants as the IDB. The provincial government, which reports that it does not have a lending instrument (though loans are available through the pension fund), received 15.4% of loan applications.

The following graph shows the movement of the interest rates of different credit sources for Quebec. The trend is unmistakably upwards. Generally, each source and year for Quebec has enough observations to give the trends statistical significance. The reasons for this general upward movement are discussed in Part E, Section 4. The graph is accompanied by a table which gives the average interest rate and repayment period by year and source, and the number of operators involved in each average.

The chartered banks' rates in Quebec are generally comparable with the Canadian average for the years 1966 to 1970, as is the IDB's rate. The "private" sources' rates are considerably higher in Quebec than in Canada as are those of the mortgage companies. It may be that Quebec's demonstrably higher ownership turn-over rate has some bearing on this. This would be the case insofar as turn-over is related to a bankruptcy rate which in turns affects the degree of risk.

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* The IDB reported that it had granted a total of 149 loans amounting to $7.2 million to the "Hotels, Motels and Other Lodgings" category in Quebec, from 1966 to 1970 (See Part E, Section 5).

TABLE E91

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

QUEBEC

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	7.6% (49)	5.4 (49)			8.5% (9)	9.3 (9)	10.7% (18)	10.6 (18)	7.0% (9)	9.2 (9)	8.6% (28)	8.3 (28)
1967	8.3% (59)	4.1 (59)	6.0% (1)	5.0 (1)	10.0% (15)	10.5 (15)	9.3% (7)	9.6 (7)	8.3% (4)	8.8 (4)	8.6% (40)	6.5 (40)
1968	8.8% (115)	5.7 (115)			10.9% (13)	5.3 (13)	10.6% (6)	7.0 (6)	8.5% (11)	9.6 (11)	8.5% (61)	7.4 (61)
1969	9.5% (165)	4.9 (165)			11.1% (37)	8.3 (37)	11.2% (16)	9.8 (16)	9.5% (17)	8.4 (17)	9.9% (76)	6.9 (76)
1970	9.9% (141)	4.3 (141)			11.7% (18)	5.1 (18)	15.1% (12)	9.3 (12)	9.0% (11)	8.7 (11)	11.2% (57)	4.9 (57)

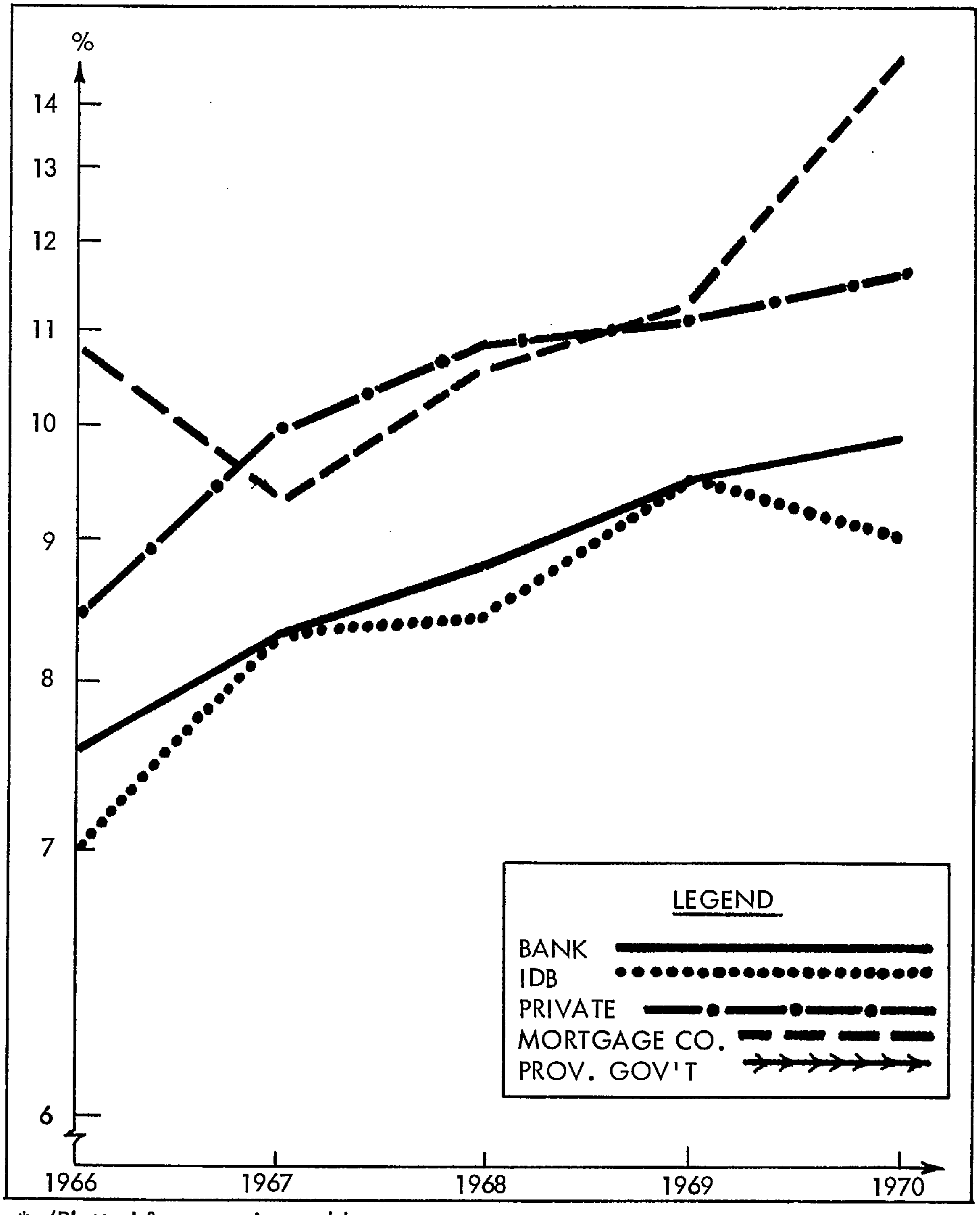
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E92

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

QUEBEC



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

Due to a lack of sufficient sample size, an economic analysis of the "Tried and Got Credit" group would have little reliability. Similarly, inadequate representation in the 51-to-100-units size group necessitates the elimination of any economic consideration of this size group's data.

The effect of size on net return to capital, land, and management is not as apparent in Quebec as elsewhere in Canada. Table E93 for example shows that the 26-to-50-units size group has the largest average number of units (36.0 units) per operation and yet its net return to capital, land and management is only 14.7%, slightly below the average of 15% for all size-groups, much lower than the 20% average for the 11-to-25-units size group, and far below the average of 44% of the "highest-net-income" group. Similarly, Table E94 shows that although the "Needed, Tried but Did Not Get Credit" group averaged only 16.9 units per operation, their net return to capital, land and management was 27% compared with 15% and 44% average net return and 17.2 and 24 units, respectively, for all groups and for the "highest-net-income" group.

The average size of a Quebec operation is 17.2 units, slightly below the Canadian average of 17.7 units. The 15% net return to capital, land and management, which, at first glance, compares favourably with the Canadian average of 14%, camouflages a wide variation, 9% being reported by the "No Need For Credit" group and a substantial 27% being reported by the "Needed, Tried but Did Not Get Credit" group.

As in most parts of Canada, Quebec's "Needed, Tried but Did Not Get Credit" group appears to be the most efficient of all groups (excluding the "highest-net-income" group).

In Quebec, net return appears to be more dependent upon the ability of the operators to combine resources to maximize gross productivity per unit. The following tables show the various determinants of gross receipts.

TABLE E93

COMPARISON OF RETURNS, OCCUPANCY RATES AND VARIOUS SERVICES AND FACILITIES BETWEEN DIFFERENT SIZE GROUPS OF HOTELS, MOTELS, AND OTHER ACCOMMODATION OPERATIONS

QUEBEC

	Less than 11 Units	11 to 25 Units	26 to 50 Units	* 51 to 100 Units	Total all Sizes	Regional "Highest-Net-Income" Group	Canada's "Highest-Net-Income" Group
Number of Operations	648	946	108	-	1760	78	621
Average Size (in Units)	8	16	36	-	17	24	38
Average Occupancy Rate	30%	44%	60%	-	40%	65%	68%
% Gross Receipts/Capital and Land Value	52%	61%	70%	-	52%	77%	56%
% Net Return/Capital and Land Value	10%	21%	15%	-	15%	44%	23%
% Operations with Swimming Pools	8%	6%	20%	-	8%	5%	7%
% Operations with Convention Halls	3%	27%	42%	-	20%	35%	27%
% Operations with Licensed Lounges	50%	72%	72%	-	66%	100%	75%
% Operations with Dining Rooms	83%	79%	66%	-	79%	71%	81%
% Operations with Coffee Shops	14%	10%	31%	-	13%	19%	34%

SOURCE: Memorandum of Interview.

* The 51-to-100-Units group has been eliminated because of unreliability, but it is retained in the aggregage "Total" column. Thus totals do not balance with the three remaining size groups.

TABLE E94

COMPARISON OF RETURNS, OCCUPANCY RATES AND VARIOUS SERVICES AND FACILITIES BETWEEN DIFFERENT "PRESENT CREDIT NEED" GROUPS OF HOTELS, MOTELS AND OTHER ACCOMMODATION OPERATIONS

QUEBEC

	No Need for Credit	Needed, Tried and Got Credit *	Needed, Tried, but Did Not Get Credit	Needed, but Did Not Try to Get Credit	Total	Regional "Highest-Net Income" Group	Canada's "Highest-Net Income" Group
Number of Operations	769	-	395	589	1760	78	621
Average Size (in Units)	18	-	17	16	17	24	38
Average Occupancy Rate	39%	-	38%	42%	40%	65%	68%
% Gross Receipts/Capital and Land Value	46%	-	61%	57%	52%	77%	56%
% Net Return/Capital and Land Value	9%	-	27%	9%	15%	44%	23%
% Operations with Swimming Pools	10%	-	1%	10%	8%	5%	7%
% Operations with Convention Halls	18%	-	36%	12%	20%	35%	27%
% Operations with Licensed Lounges	57%	-	71%	75%	66%	100%	75%
% Operations with Dining Rooms	74%	-	78%	86%	79%	71%	81%
% Operations with Coffee Shops	21%	-	11%	2%	13%	19%	34%

* SOURCE: Memorandum of Interview.

* The "Needed, Tried and Got Credit" group has been eliminated because of unreliability, but it is retained in the aggregate "Total" column. Thus totals do not balance with the three remaining credit need groups.

The average Quebec operator appears to be conservative when it comes to borrowing. This is reflected in several sets of statistics presented above.

Examples:

- a relatively large proportion of Quebec operators reported that they had "No Need for Credit" during the period prior to the interview;

- the average "Present Credit Need" in Quebec is \$61,195 (compared with the Canadian average of \$54,568) and yet the average original loan in the years preceding the interview is but \$35,008 (the Canadian average is \$46,978), the average outstanding debt is \$34,510 (the Canadian average is \$50,453), the equity-ratio is 74% (the Canadian average is 69%), and the percent of gross receipts which could be repaid towards loans is 10% (the Canadian average is 14%).

This apparent conservatism in credit borrowing may have put a serious limitation on the serviceability of the Quebec accommodation operators and consequently the profitability of the "No Need for Credit" and the "Needed, but Did Not Try to Get Credit" groups. Conservatism coupled with relatively-high short-term interest rates in Quebec has probably prevented the operators from providing adequate facilities and services to the expanding tourist market. Perhaps nowhere else can there be found a greater need for a sound management program which would provide operators (particularly those in the "Needed, Tried but Did Not Get Credit" group) with better tools for judging the profitability of additional investment based on the merits of the project in question rather than on the absolute level of market rates or repayment terms of loans.

TABLE E95

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

QUEBEC

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME"GROUP
Total number of operations	769	7	395	589	1,760	78
Average number of units per operation	18.4	54.9	16.9	15.5	17.2	24.0
Average market value of land and capital per operation	$157,100	$385,700	$110,600	$112,600	$132,673	$227,308
Value of land and capital/unit	$8,554	$7,031	$6,558	$7,277	$7,711	$9,327
Gross income/capital and land value	46%	80%	61%	57%	52%	77%
Average occupancy rate	39%	66%	38%	42%	40%	65%
Net return to land, capital and management	9%	-	27%	9%	15%	44%
Average original loan	$45,782	$63,222	$32,974	$26,988	$35,008	$66,069
Average present credit needed	-	$117,100	$77,080	$49,877	$61,195	$102,419
Average debt outstanding	$44,056	$57,243	$32,892	$27,565	$34,510	$68,936
Average owner equity	$113,000	$328,000	$77,700	$85,000	$98,163	$158,372
Equity ratio	72%	85%	70%	76%	74%	70%
% of gross receipts which could be repaid towards loans *	11%	5%	11%	8%	10%	8%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E96

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

QUEBEC

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 ** UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	648	946	108	-	1,760	78
Average number of units per operation	7.96	16.3	36.1	-	17.2	24.0
Average market value of land and capital per operation	$61,529	$103,819	$315,463	-	$132,673	$227,308
Value of land and capital/unit	$7,728	$6,369	$8,739	-	$7,711	$9,327
Gross income/capital and land value	51.8%	61%	70%	-	52%	77%
Average occupancy rate	29.9%	43.6%	59.6%	-	40%	65%
Net return to land, capital and management	10%	20.7%	14.7%	-	15%	44%
Average original loan	$13,689	$33,329	$97,097	-	$35,008	$66,069
Average present credit needed	$46,272	$61,360	$84,329	-	$61,195	$102,419
Average debt outstanding	$13,475	$35,500	$93,393	-	$34,510	$68,936
Average owner equity	$48,054	$68,319	$222,070	-	$98,163	$158,372
Equity ratio	78.1%	65.8%	70.4%	-	74%	70%
% of gross receipts which could be repaid towards loans *	8.5%	10.3%	13.9%	-	10%	8%

* As reported by operators.

** This class yielded highly unreliable data. We have therefore excluded it from individual treatment. It is, however, retained in the "Grand Total" column.

SOURCE: Memorandum of Interview.

(c) ONTARIO

Ontario contains approximately 41.2% of Canada's accommodation operations. As the following table shows, Ontario tends to be "others"-intensive relative to Canada:

TABLE E97

DISTRIBUTION OF OPERATIONS BY TYPE

	Distribution of Total Accommodation	Motels	Hotels	Others	Campgrounds
CANADA	100%	27.3%	29.5%	31.2%	12.0%
ONTARIO	41.2%	25.8%	17.9%	46.1%	10.2%

SOURCE: Preliminary Mail-Out Survey.

Its "Motels", "Hotels" and "Others" are distributed according to the following sizes:

TABLE E98

DISTRIBUTION OF OPERATIONS BY SIZE

SIZE	ONTARIO	CANADA
LESS THAN 11 UNITS	37.8%	38.6%
11 TO 25 UNITS	48.1%	44.5%
26 TO 50 UNITS	11.2%	13.4%
51 TO 100 UNITS	3.0%	3.4%

SOURCE: Memorandum of Interview.

Table E98 shows that Ontario does not deviate very much from the Canadian pattern of distribution of motels, hotels and others by size.

At the time of interview, a larger percentage of Ontario operators expressed a need for credit than in Canada as a whole. Of those who expressed a need a very high 85.6% did not try to borrow, so that, of all Ontario operators interviewed, only 10.7% tried to borrow versus 19.6% for Canada. Table E99 demonstrates the distribution of "Present Credit Need" groups in Ontario compared with Canada.

TABLE E99

PRESENT CREDIT NEEDS AT THE TIME OF INTERVIEW

	NO NEED FOR CREDIT	NEEDED CREDIT		
		TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	30.7%	3.2%	16.4%	49.7%
ONTARIO	25.3%	1.5%	9.2%	64.4%

SOURCE: Memorandum of Interview.

35.8% of the total dollar amount of "Present Credit Needs" for all types of accommodation was in Ontario, with an average requirement of $42,000 compared with $53,000 for the Canadian average. Successful applicants were able to obtain 2.8% of a reported requirement of approximately $285 million.

Table E100 shows a financing pattern which is not very much unlike the Canadian pattern.

TABLE E100

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

ONTARIO

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (82% of Total)		
PRIVATE	55.5%	$33,706
MORTGAGE CO	36.3%	$98,257
BANK	2.9%	$17,849
IDB	3.9%	$70,338
PROV. GOV'T	-	-
FINANCE CO	0.9%	$81,867
OTHER	0.4%	$17,776
SECONDARY (18% of Total)		
PRIVATE	52.1%	$24,179
BANK	37.3%	$12,336
IDB	3.6%	$39,931
FINANCE CO	0.3%	$1,479
MORTGAGE CO	1.5%	$19,841
PROV. GOV'T	-	-
OTHER	5.2%	$74,900

SOURCE: Memorandum of Interview.

Ontario operators are largely dependent upon "private" sources for financing, with mortgage companies providing a high 36.3% of primary loan amounts. The latter provide the large loans (average size is $98,257) with the IDB and finance companies providing the balance of the larger-size amounts with averages of $70,338 and $81,867 respectively. The finance companies account for less than 1% of the total primary loan amount, while the IDB provides 3.9%*

The "Needed, Tried, but Did Not Get Credit" group generally complained less about all reasons for which a loan might not materialize except an unspecified "other". Though below the national average, 45.1% of applicants gave "High Interest" as a reason why the loan was turned down. Again, there appears to be a high incidence of would-be borrowers turning down lenders. The distribution of reasons why loans did not materialize is shown in Table E101.

TABLE E101

REASONS GIVEN BY

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

WHY LOANS WERE DECLINED

	ONTARIO	CANADA
INSUFFICIENT EQUITY	8.7%	24.6%
INSUFFICIENT AMOUNT	5.4%	10.0%
HIGH INTEREST	45.1%	53.4%
SHORT TERM	13.3%	47.1%
OTHER	46.7%	23.1%

SOURCE: Memorandum of Interview.

* The IDB reported that it had granted a total of 328 loans amounting to $14.3 million to the "Hotels, Motels and Other Lodgings" category in Ontario, from 1966 to 1970 (See Part E, Section 5).

Table E102 shows the sources to which the above group applied:

TABLE E102

FINANCING SOURCES APPLIED TO BY
THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	ONTARIO	CANADA
BANK	35.9%	56.2%
MORTGAGE CO.	32.6%	25.8%
IDB	50.3%	40.3%
PROV. GOV'T	6.5%	9.0%
PRIVATE	22.8%	15.6%
FINANCE CO.	-	8.6%
OTHER	-	6.4%

SOURCE: Memorandum of Interview.

Table E102 shows a high incidence of applications to conventional sources, below the Canadian average in the case of chartered banks, but above in the case of mortgage companies. The highest single source was the IDB (50.3%). Though a relatively high proportion applied to "private" sources, this is still considerably below the proportion of total past lending financed from "private" sources. This observation is consistent with our "transfer credit" hypothesis.

The following graph shows the movement of the interest rates of different credit sources for Ontario. The trend is unmistakably upwards. Generally, each source and year for Ontario has enough observations to give the trends statistical significance. The reasons for this general upward movement have been discussed in Part E, Section 4. The graph is accompanied by a table which gives the average interest rate and repayment period by year and source, and the number of operators involved in each average.

Ontario's interest rates for different financing sources are very similar to the national average. This is hardly remarkable, since the size of the Ontario sampling had a large part in determining what the national average was.

TABLE E103

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

ONTARIO

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	7.1% (68)	4.8 (68)	5.0% (2)	10.0 (2)	7.6% (38)	7.9 (38)	9.5% (21)	9.3 (21)	7.4% (10)	7.9 (10)	6.4% (7)	9.8 (7)
1967	7.5% (100)	5.3 (100)	5.0% (4)	7.0 (4)	9.2% (19)	6.0 (19)	9.4% (5)	9.6 (5)	7.7% (15)	8.4 (15)	14.3% (3)	3.7 (3)
1968	8.6% (141)	4.3 (141)			9.4% (40)	7.3 (40)	11.0% (9)	7.8 (9)	7.9% (28)	8.4 (28)	11.5% (10)	5.8 (10)
1969	9.0% (290)	3.3 (290)	5.0% (1)	10.0 (1)	10.1% (61)	8.4 (61)	13.5% (23)	8.3 (23)	9.0% (38)	8.7 (38)	12.1% (28)	6.6 (28)
1970	10.4% (270)	2.3 (270)			9.1% (39)	7.9 (39)	12.7% (20)	8.5 (20)	9.9% (15)	8.6 (15)	13.0% (28)	5.0 (28)

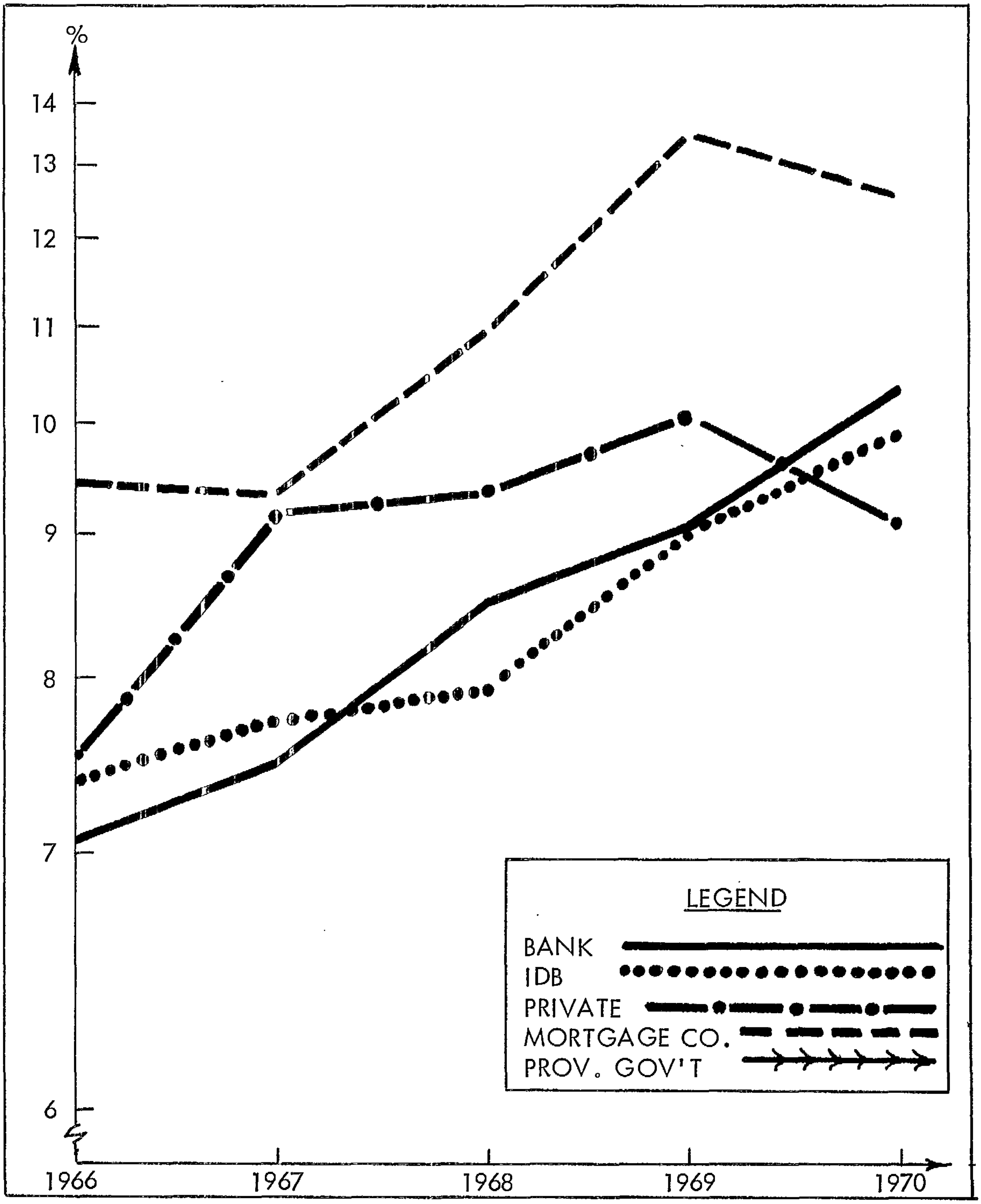
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E104

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

ONTARIO



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

An economic discussion of the Ontario accommodation sector is essentially one about gross productivity per unit and seasonality.

Ontario's non-campground operation has an average of 16 units — along with the Atlantic Provinces, the lowest in Canada. This may be due to the fact that over half of the non-campground operations are in the "Others" group of which the average size is usually relatively small. The average net return to capital, land and management which is 12% (two percentage points below the Canadian average), conceals a wide range of profitability, from 6.4% in the less-than-11-units size group, to 16.1% in the 51-to-100-units size group. The same wide variation of profitability is found among "Credit Need" groups, 6% for the "Needed, Tried and Got Credit" group, and 17% for the "No Need for Credit" group.

Despite the high occupancy rate of 61% (6% above the national average), gross receipts to capital and land value is relatively low, 37% compared with the Canadian average of 42% and with the 51% average for Ontario's "highest-net-income" group. This low productivity may be accounted for by the relatively low proportion of Ontario's operations with ancillary income-generating services such as convention halls, licensed lounges, etc., and the short season the "others" group has in which to generate income.

Ontario operators appear to be unable to develop a strategy for identifying the sectoral market growth. Plant development in Ontario appears inconsistent with the market growth potential with the result that there exists an oversupply of some types of facilities with shortages of others. While hunting and fishing lodges make up more than 37%* of the total accommodation facilities in Ontario, accommodation facilities for the leisure, middle-income class who are less inclined to outdoor sports and games, seem to be lacking. As a result, a large number of enterprises is dying out while at the same time there are cries for more accommodation.

The following tables reveal an apparent correlation between profitability and the degree of services and facilities provided by different "Credit Need" and size groups of "Hotel", "Motel" and "Others" accommodation in Ontario.

The average non-campground Ontario operator has a relatively low debt outstanding of $38,192 (compared with the Canadian average of $50,453) and a relatively high equity ratio of 76% (compared with the national average of 69%). The present credit need expressed by this group was a relatively low $43,194 (compared with $54,568 for Canada).

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* Mail-out questionnaire results for Ontario: 22% Motel, 16% Hotel (not including Tourist Homes), 37% Hunting and Fishing Lodges, 25% other.

TABLE E105

COMPARISON OF THE AVAILABILITY OF ACCOMMODATION SERVICES AND FACILITIES BY REGION AND "HIGHEST-NET-INCOME" GROUPS

TOTAL AVERAGES

	ATLANTIC	QUEBEC	ONTARIO	PRAIRIES, YT & NWT	BRITISH COLUMBIA	CANADA
% of Operations with Swimming Pools	3%	8%	5%	3%	19%	8%
% of Operations with Convention Halls	9%	20%	7%	10%	4%	10%
% of Operations with Licensed Lounges	22%	66%	19%	53%	23%	34%
% of Operations with Dining Rooms	52%	79%	44%	46%	28%	50%
% of Operations with Coffee Shops	13%	13%	16%	43%	16%	19%
% Net Return/Capital and Land Value	9%	15%	12%	18%	15%	14%
"HIGHEST-NET-INCOME" GROUPS						
% of Operations with Swimming Pools	5%	5%	4%	20%	1%	7%
% of Operations with Convention Halls	6%	35%	25%	13%	56%	27%
% of Operations with Licensed Lounges	54%	100%	69%	80%	77%	75%
% of Operations with Dining Rooms	67%	71%	84%	84%	83%	81%
% of Operations with Coffee Shops	26%	19%	20%	58%	74%	34%
% Net Return/Capital and Land Value	15%	44%	19%	24%	30%	23%

SOURCE: Memorandum of Interview.

TABLE E106

COMPARISON OF THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF NON-CAMPGROUND OPERATIONS

ONTARIO

	% of Operations with:					Gross Receipts to Capital & Land Value	Net Return to Capital, Land & Management
	Swimming Pools	Convention Halls	Licensed Lounges	Dining Rooms	Coffee Shops		
SIZE							
Less than 11 Units	3%	1%	2%	16%	15%	22%	6%
11 to 25 Units	1%	4%	16%	54%	8%	33%	10%
26 to 50 Units	23%	28%	69%	86%	34%	45%	13%
51 to 100 Units	13%	5%	34%	95%	81%	52%	16%
CREDIT NEED GROUPS							
No Need for Credit	3%	5%	21%	39%	12%	43%	17%
Needed, Tried and Got Credit	11%	11%	18%	36%	7%	25%	6%
Needed, Tried but Did Not Get Credit	23%	26%	52%	70%	56%	40%	10%
Needed, but Did Not Try to Get Credit	3%	5%	14%	43%	11%	33%	10%
"HIGHEST-NET-INCOME" GROUPS							
Ontario	4%	25%	69%	84%	20%	51%	19%
Canada	7%	27%	75%	81%	34%	56%	23%
TOTAL AVERAGE							
Ontario	5%	7%	19%	44%	16%	37%	12%
Canada	8%	10%	34%	50%	19%	42%	14%

SOURCE: Memorandum of Interview.

TABLE E107

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

ONTARIO

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	946	61	339	2,420	3,766	308
Average number of units per operation	17	19	22	15	16	35
Average market value of land and capital per operation	$185,182	$145,984	$269,021	$131,960	$157,894	$505,974
Value of land and capital/unit	$10,968	$7,703	$12,376	$8,943	$9,876	$14,537
Gross income/capital and land value	43%	25%	40%	33%	37%	51%
Average occupancy rate	65%	70%	63%	59%	61%	74%
Net return to land, capital and management	17%	6%	10%	10%	12%	19%
Average original loan	$43,446	$51,415	$61,752	$31,932	$37,248	$111,381
Average present credit needed	-	$56,997	$113,646	$32,978	$43,194	$63,330
Average debt outstanding	$46,332	$35,367	$60,545	$33,054	$38,192	$120,579
Average owner equity	$138,850	$110,617	$208,476	$98,906	$119,702	$385,395
Equity ratio	75%	76%	77%	75%	76%	76%
% of gross receipts which could be repaid towards loans *	15%	12%	19%	14%	15%	11%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E108

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

ONTARIO

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	1.423	1,810	421	112	3,766	308
Average number of units per operation	6.25	16.4	34.2	64.6	16.0	35.0
Average market value of land and capital per operation	$91.200	$114,000	$403.700	$790,400	$157,894	$505,974
Value of land and capital/unit	$14,592	$6,955	$11,797	$12,238	$9,876	$14,537
Gross income/capital and land value	21.7%	32.8%	44.8%	52.2%	37%	51%
Average occupancy rate	58.1%	61%	68%	67.4%	61%	74%
Net return to land, capital and management	6.4%	10.2%	12.8%	16.1%	12%	19%
Average original loan	$15,477	$30,720	$90,668	$209,411	$37,248	$111,381
Average present credit needed	$17,630	$41,228	$109,791	$222,889	$43,194	$63,330
Average debt outstanding	$16,652	$28,607	$81,898	$186,527	$38,192	$120,579
Average owner equity	$74,548	$85,393	$321,802	$603,873	$119,702	$385,395
Equity ratio	82%	75%	80%	76%	76%	76%
% of gross receipts which could be repaid towards loans *	13.6%	17.7%	13.5%	10%	15%	11%

* As reported by operators.

SOURCE: Memorandum of Interview.

(d) THE PRAIRIES, THE YUKON AND THE NORTHWEST TERRITORIES

This area contains approximately 16.7% of Canada's accommodation operations. Alberta tends to be relatively motel-intensive, while Saskatchewan, Manitoba and Alberta are hotel-intensive, relative to Canada:

TABLE E109

DISTRIBUTION OF OPERATIONS BY TYPE

	Distribution Total Accommodation	Motels	Hotels	Others	Campgrounds
CANADA	100%	27.3%	29.5%	31.2%	12.0%
MAN	2.9%	27.0%	38.3%	25.9%	8.7%
SASK	4.9%	24.1%	64.5%	8.6%	2.7%
ALTA	7.9%	32.1%	37.4%	19.2%	11.2%
YT&NWT	1.0%	23.3%	41.7%	30.0%	5.0%

SOURCE: Preliminary Mail-Out Survey.

The area's motels, hotels and "others" (excluding campgrounds) are distributed according to the following sizes:

TABLE E110

DISTRIBUTION OF OPERATIONS BY SIZE

SIZE	MAN	SASK	ALTA	YT&NWT	CANADA
Less than 11 Units	42.3%	47.2%	19.9%	24.3%	38.6%
11 to 25 Units	29.9%	28.0%	58.1%	40.5%	44.5%
26 to 50 Units	26.0%	19.4%	14.2%	35.1%	13.4%
51 to 100 Units	1.8%	5.4%	7.8%	0.0%	3.4%

SOURCE: Memorandum of Interview.

Manitoba has a slightly higher-than-average percentage in the less-than-11-units group, with a much lower-than-average grouping in the 11-to-25-units size and a high incidence in the 26-to-50-units group. Consequently we would expect the Manitoba accommodation sector in general to be more economically viable than the national average.

Saskatchewan finds itself in a similar size position to that of Manitoba, with a higher concentration in the smallest-size group and a higher-than-average concentration in the two largest-size groups.

Alberta has approximately the same concentration in the two smallest-size groups as the national average, but with the bulk concentrated in the 11-to-25-units group. Alberta also has a relatively high representation in the 51-to-100-units group. Thus, Alberta's accommodation sector can be expected to have an optimum-size advantage relative to Canada's.

Fully one-third of the Yukon and Northwest Territories' operations are concentrated in the 26-to-50-units group.

Table E111 shows this area's "Present Credit Needs" as expressed at the time of interview.

TABLE E111

PRESENT CREDIT NEED AT THE TIME OF INTERVIEW

	NO NEED FOR CREDIT	NEEDED CREDIT		
		TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	30.7%	3.2%	16.4%	49.7%
MAN	29.7%	3.1%	18.6%	48.6%
SASK	9.7%	21.4%	15.9%	53.1%
ALTA	37.2%	1.9%	25.9%	35.0%
YT&NWT	24.3%	0.0%	24.3%	51.4%

SOURCE: Memorandum of Interview.

The Prairies, Yukon and Northwest Territories, together, reported a "Present Credit Need" of approximately $163.5 million, 20.5% of the total Canadian reported need at the time of interview.

Manitoba's pattern corresponded very closely to the national average for each group. Saskatchewan's pattern showed a low 9.7% in the "No Need for Credit" group and a very high 21.4% in the "Needed, Tried and Got Credit" group*. Alberta showed a high number in the "Needed, Tried, but Did Not Get Credit" group.

Table E112 shows the total amount of present credit need reported by each province in the area, along with the average amount of each loan.

TABLE E112

TOTAL CREDIT NEED AND AVERAGE SIZE OF LOAN
FOR THE PRAIRIES, YUKON AND NORTHWEST TERRITORIES

	PROPORTION OF TOTAL PRESENT CREDIT NEED	TOTAL PRESENT CREDIT NEED	AVERAGE SIZE OF NEEDED LOAN
CANADA	100%	$796 million	$53,000
MAN	3.9%	$31.3 million	$67,000
SASK	4.0%	$31.7 million	$35,000
ALTA	11.7%	$92.9 million	$104,000
YT&NWT	1.0%	$7.7 million	$120,000

SOURCE: Memorandum of Interview.

* This was largely due to a few large, heavily-weighted loans. The figure may not be very reliable.

It is interesting to note in Table E112 that the very high average-size loans are in those provinces with low success rates. The question arises whether these high-average-size-need provinces have a low success rate because their needs are too large, or whether they are overstating their needs to the interviewer. An examination of Table E115 would suggest the former explanation, as Alberta and the Yukon and Northwest Territories have by far the highest incidence of "Insufficient Equity" as a reason for the loans not materializing.

Of the amounts expressed in Table 112, the following amounts had already been obtained by successful applicants: *

TABLE E113

AMOUNT OBTAINED OF PRESENT CREDIT NEED

CANADA	$32.8 million
MANITOBA	$1.3 million
SASKATCHEWAN	$6.5 million
ALBERTA	$2.9 million
YUKON & NWT	-

SOURCE: Memorandum of Interview.

Table E113 demonstrates that this area had obtained 32.6% of the credit extended around the time of interview. This amounted to 6.5% of the total reported present credit need at that time.

Table E114 shows the source, relative activity of that source, and average size of loan, for both primary and secondary loans issued in the Prairies, and the Yukon and Northwest Territories in the years preceding the interview.

* This table should be viewed with caution due to the small sampling upon which these figures are based.

TABLE E114

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

THE PRAIRIES, YUKON & NORTHWEST TERRITORIES

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (82% of Total)		
PRIVATE	35.1%	$84,413
MORTGAGE CO	24.2%	$140,421
BANK	19.1%	$30,023
IDB	8.5%	$70,412
PROV. GOV'T	3.7%	$16,167
FINANCE CO	0.9%	$25,000
OTHER	8.5%	$39,154
SECONDARY (18% of Total)		
PRIVATE	33.2%	$40,111
BANK	59.6%	$25,788
IDB	1.1%	$31,000
FINANCE CO	-	-
MORTGAGE CO	-	-
PROV. GOV'T	-	-
OTHER	6.2%	$67,192

SOURCE: Memorandum of Interview.

Prairie and Territory operators show a greater degree of dependence upon conventional lenders, and a lower degree of dependence upon "private" sources. The latter observation may be due to a low degree of ownership turn-over, in turn due to a generally high level of economic performance. Nevertheless, the "private" source remains the single most important source of financing. The IDB shows a relatively high level of participation*, but it does not account for the largest loans as it does in some other parts of Canada in spite of the fact that the average size of the IDB loans is $70,412. The very large average-size loans provided by the mortgage companies are considerably larger than the average size of any other source in any other region. "Private" sources also have a high average-size. The relatively high "other" source (8.5% of primary loans) may be partially explained by the well-developed Credit Union movement in the West.

The respondents from the "Needed, Tried, but Did Not Get Credit" group, gave the following responses when asked why the loan had not materialized:

TABLE E115

REASONS GIVEN BY
THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP
WHY LOANS WERE DECLINED

	MAN	SASK	ALTA	YT&NWT	CANADA
INSUFFICIENT EQUITY	22.2%	26.0%	68.5%	55.5%	24.6%
INSUFFICIENT AMOUNT	-	-	-	-	10.0%
HIGH INTEREST	62.9%	85.5%	29.6%	22.2%	53.4%
SHORT TERM	18.5%	56.5%	14.8%	-	47.1%
OTHER	44.4%	14.4%	21.6%	33.3%	23.1%

SOURCE: Memorandum of Interview.

* The IDB reported that it had granted a total of 206 loans amounting to $16.5 million to the "Hotels, Motels and Other Lodgings" category in the Prairies, Yukon and Northwest Territories from 1966 to 1970.

As already noted, there was a very high incidence of "Insufficient Equity" in Alberta and the Yukon and Northwest Territories as a reason the loan did not materialize, possibly due to the very high average-size of credit need in those political entities. This is clearly a case of lenders turning down applicants. Generally, only Manitoba and Saskatchewan complained much about "High Interest", and only the latter about "Short Term", the others having a relatively low incidence of complaint about those two reasons for loans being turned down.

Table E116 shows the sources to which the above group applied:

TABLE E116

FINANCING SOURCES APPLIED TO BY

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	MAN	SASK	ALTA	YT&NWT	CANADA
BANK	64.8%	57.9%	51.5%	22.2%	56.2%
MORTGAGE CO.	46.2%	-	9.9%	-	25.8%
IDB	40.7%	39.1%	56.1%	44.4%	40.3%
PROV. GOV'T	24.0%	7.2%	-	33.3%	9.0%
PRIVATE	38.8%	-	24.6%	-	15.6%
FINANCE CO.	20.4%	17.3%	-	-	8.6%
OTHER	-	49.2%	-	11.1%	6.4%

SOURCE: Memorandum of Interview.

Some of the characteristics of Table E116 have already been mentioned in the previous section. Applications to conventional lenders were average to high compared with Canada. Governmental agencies, provincial and federal, received an above-average share of the enquiries. In fact, for each source, the percentage of applications seems to be either above-average, or non-existant.

The following graphs show the upward movement of the interest rates of different credit sources for each Prairie Province and for the Yukon and the Northwest Territories, for the years 1966 to 1970. Some of the more erratic trends can be attributed to a low number of observations. Each graph is accompanied by a table which gives the average interest rate and repayment period by year and source, and the number of operators involved in each average.

Chartered banks in these provinces and territories generally appeared to have a lower rate than the national average. This may be related to a lower element of risk in the accommodation sector of this region as reflected in the industry's economic characteristics. A second remarkable feature of the area is that there appears to be less tendency for the provincial lending agencies, where they exist, to subsidize the interest rate than appears to be the case in the Atlantic Provinces.

TABLE E117

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

MANITOBA

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	6.6% (5)	8.4 (5)			9.0% (2)	6.0 (2)	8.0% (1)	10.0 (1)	7.0% (2)	10.0 (2)	8.0% (1)	20.0 (1)
1967	8.1% (8)	4.8 (8)			8.0% (3)	7.3 (3)	9.0% (2)	10.0 (2)	8.0% (3)	12.0 (3)	8.0% (1)	18.0 (1)
1968	9.8% (13)	5.3 (13)	9.0% (1)	10.0 (1)	8.0% (2)	4.5 (2)	8.0% (1)	7.0 (1)	8.5% (4)	10.5 (4)	10.0% (3)	5.7 (3)
1969	9.6% (25)	2.6 (25)	10.5% (2)	12.5 (2)	10.5% (9)	5.5 (9)	11.0% (4)	15.8 (4)	8.0% (1)	12.0 (1)	10.0% (2)	13.0 (2)
1970	10.1% (10)	2.9 (10)	8.0% (1)	5.0 (1)	13.0% (1)	12.0 (1)	13.0% (1)	10.0 (1)	10.0% (2)	9.0 (2)	12.0% (2)	7.5 (2)

* Repayment Term is given in years.

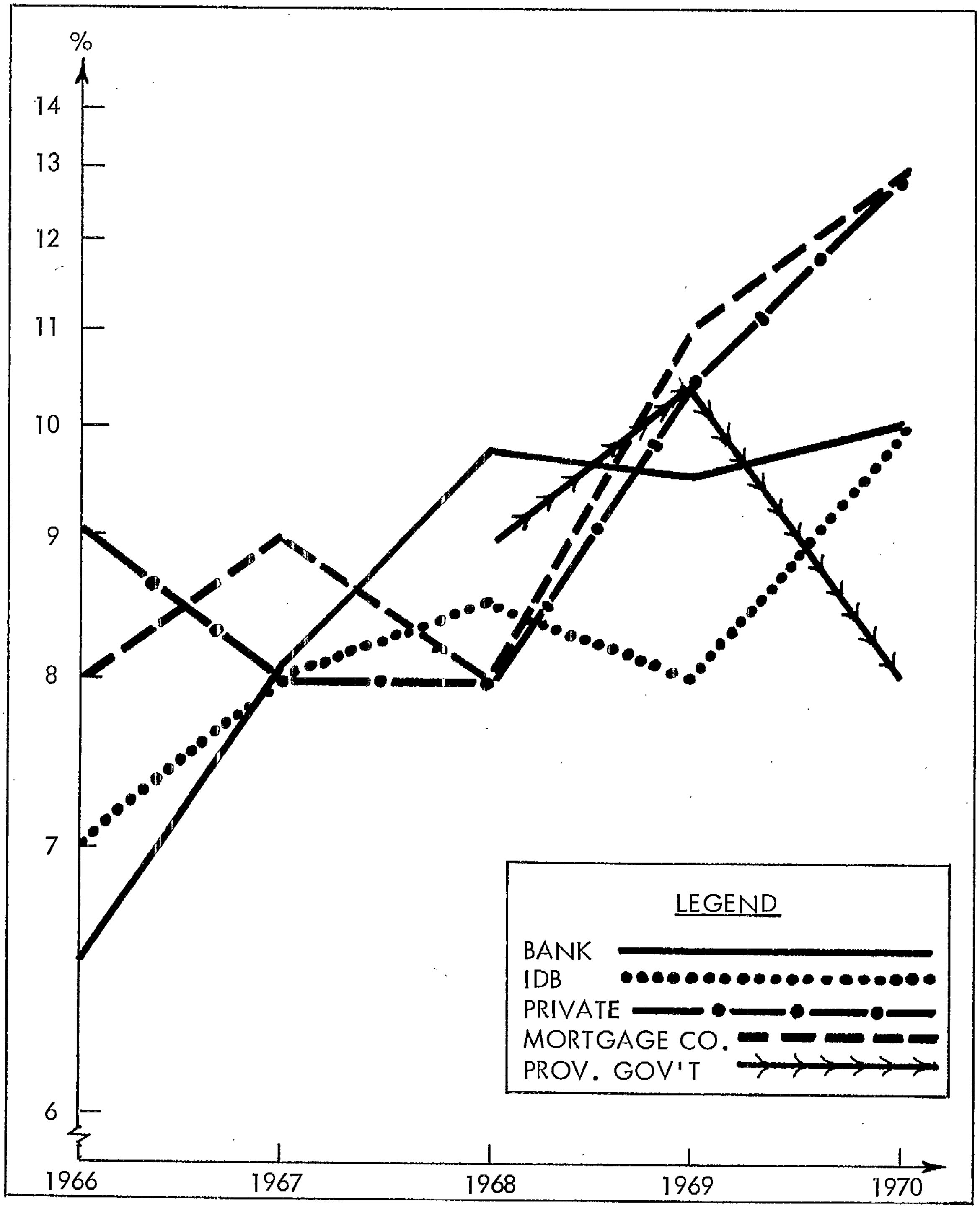
SOURCE: Preliminary Mail-Out Survey.

(GRAPH ON FOLLOWING PAGE)

GRAPH E118

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

MANITOBA



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

TABLE E119

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

SASKATCHEWAN

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	6.3% (19)	6.5 (19)			11.0% (2)	6.5 (2)	8.0% (1)	15.0 (1)	7.5% (2)	10.0 (2)	6.9% (7)	6.5 (7)
1967	6.7% (16)	8.1 (16)			8.0% (1)	15.0 (1)	8.6% (5)	12.6 (5)	8.0% (4)	10.0 (4)	8.2% (6)	8.5 (6)
1968	9.3% (28)	4.7 (28)			7.7% (3)	8.3 (3)			7.7% (3)	8.3 (3)	6.8% (4)	5.8 (4)
1969	9.4% (43)	4.1 (43)	8.0% (1)	2.0 (1)	8.4% (5)	6.1 (5)	11.7% (3)	8.3 (3)	8.8% (5)	10.4 (5)	10.5% (14)	5.1 (14)
1970	9.4% (14)	4.1 (14)					9.0% (2)	10.5 (2)	10.0% (2)	11.0 (2)	9.6% (5)	3.6 (5)

* Repayment Term is given in years.

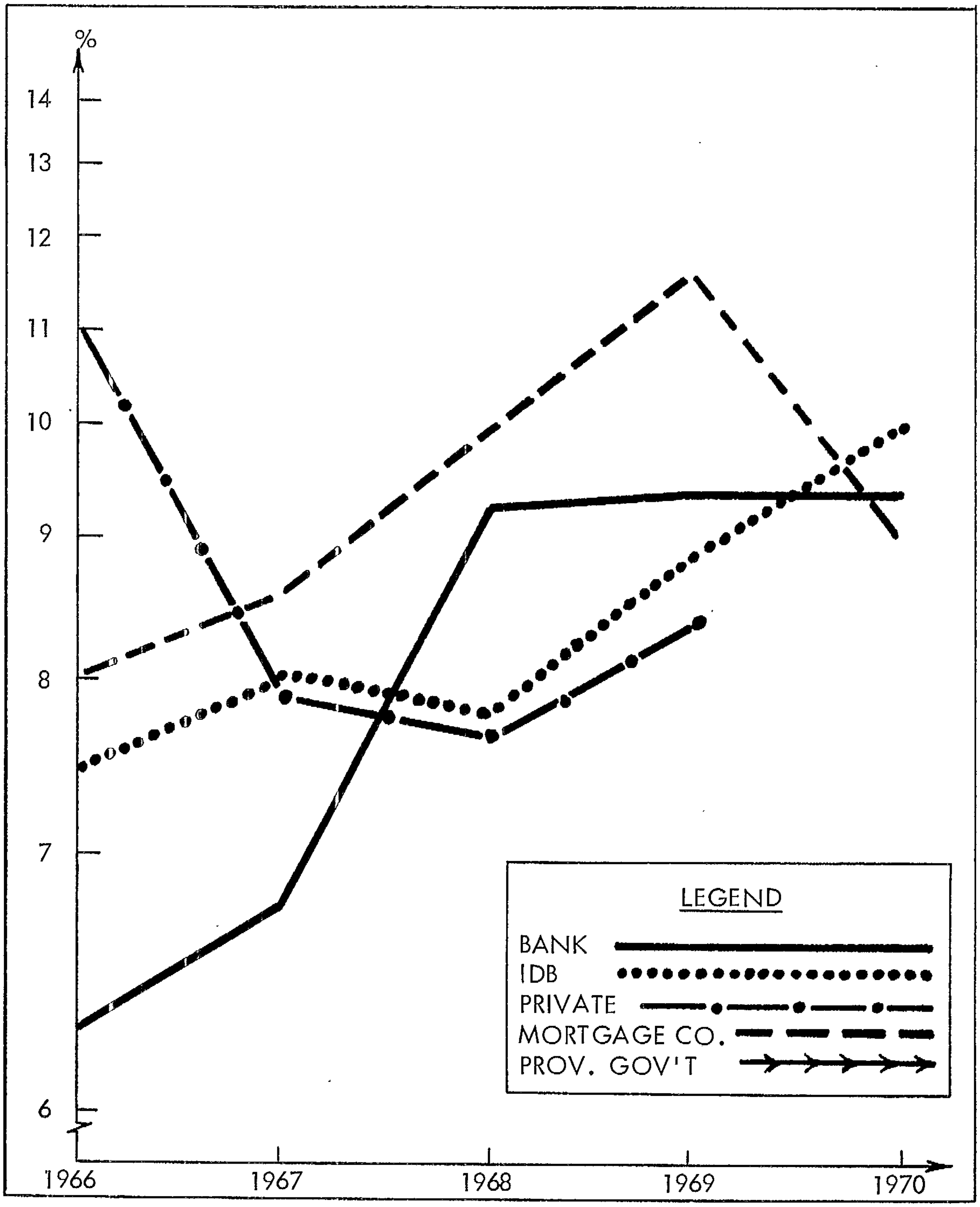
SOURCE: Preliminary Mail-Out Survey.

(GRAPH ON FOLLOWING PAGE)

GRAPH E120

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

SASKATCHEWAN



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

ALBERTA

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	6.5% (20)	4.5 (20)	7.0% (2)	6.0 (2)	7.5% (2)	0.8 (2)	7.0% (1)	15.0 (1)	7.0% (2)	7.5 (2)	8.6% (5)	7.5 (5)
1967	7.4% (27)	5.8 (27)			7.3% (3)	10.7 (3)	11.0% (2)	15.0 (2)	8.8% (4)	10.0 (4)		
1968	8.4% (37)	4.5 (37)	8.5% (4)	7.0 (4)	8.9% (7)	8.2 (7)	11.4% (5)	12.0 (5)	8.5% (11)	9.0 (11)	13.5% (4)	6.8 (4)
1969	9.2% (51)	3.7 (51)	9.5% (2)	7.5 (2)	8.1% (10)	5.7 (10)	10.8% (6)	11.7 (6)	9.5% (4)	8.8 (4)	12.8% (4)	2.5 (4)
1970	10.0% (27)	3.7 (27)	9.0% (3)	4.0 (3)	8.7% (3)	8.0 (3)	11.0% (2)	6.5 (2)	10.8% (4)	10.0 (4)		

* Repayment Term is given in years.

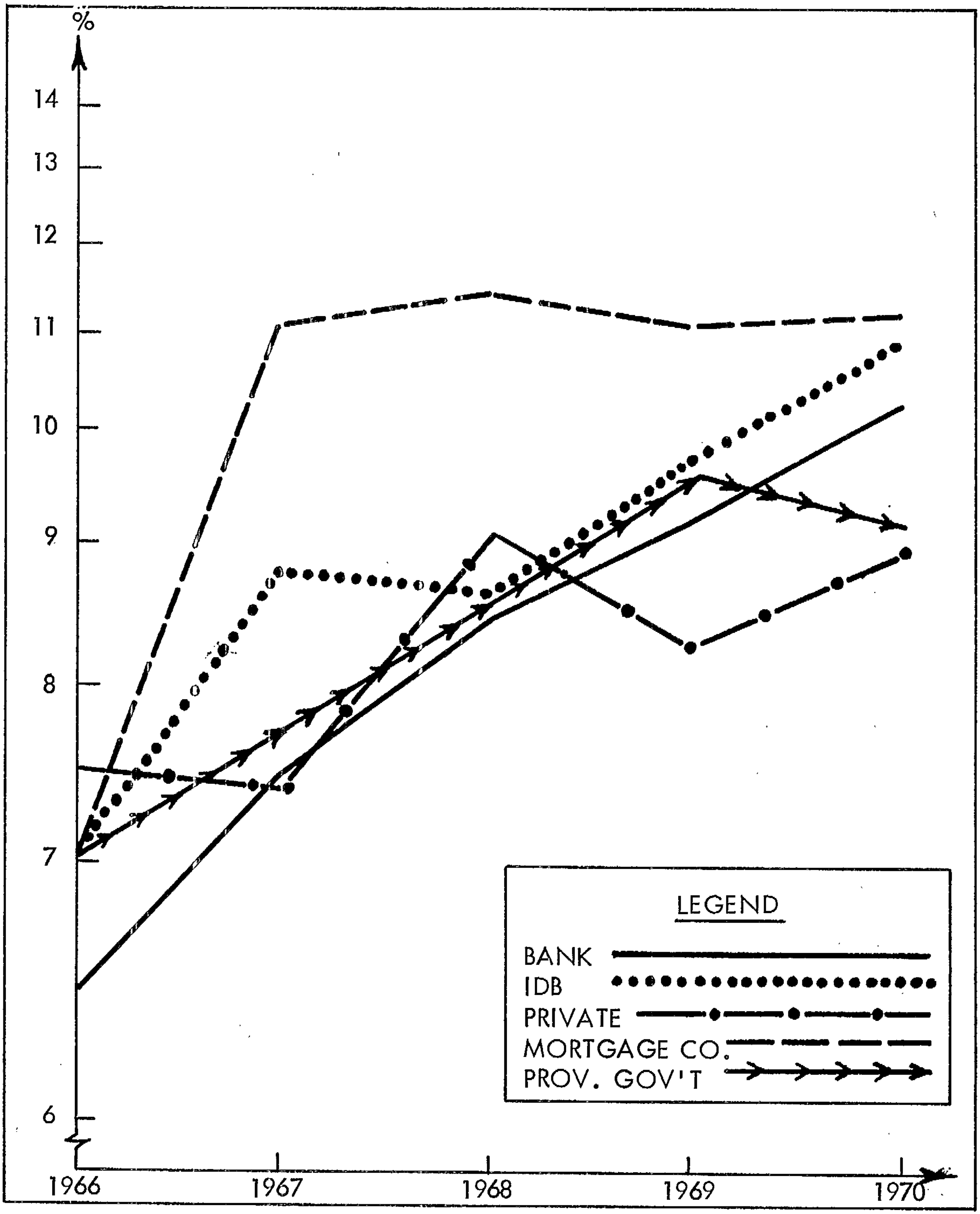
SOURCE: Preliminary Mail-Out Survey.

(GRAPH ON FOLLOWING PAGE)

GRAPH E122

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

ALBERTA



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

TABLE E123

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

THE YUKON AND NORTHWEST TERRITORIES

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966							6.0% (1)	15.0 (1)	8.0% (1)	20.0 (1)		
1967	6.8% (4)	1.7 (4)					10.0% (1)	15.0 (1)	9.0% (3)	14.0 (3)		
1968	5.0% (1)	8.0 (1)							8.0% (4)	12.5 (4)		
1969	9.7% (7)	3.4 (7)					10.0% (1)	10.0 (1)	9.0% (1)	10.0 (1)	9.0% (1)	4.0 (1)
1970	9.7% (3)	0.7 (3)			10.0% (1)	5.0 (1)			10.3% (3)	8.3 (3)		

* Repayment Term is given in years.

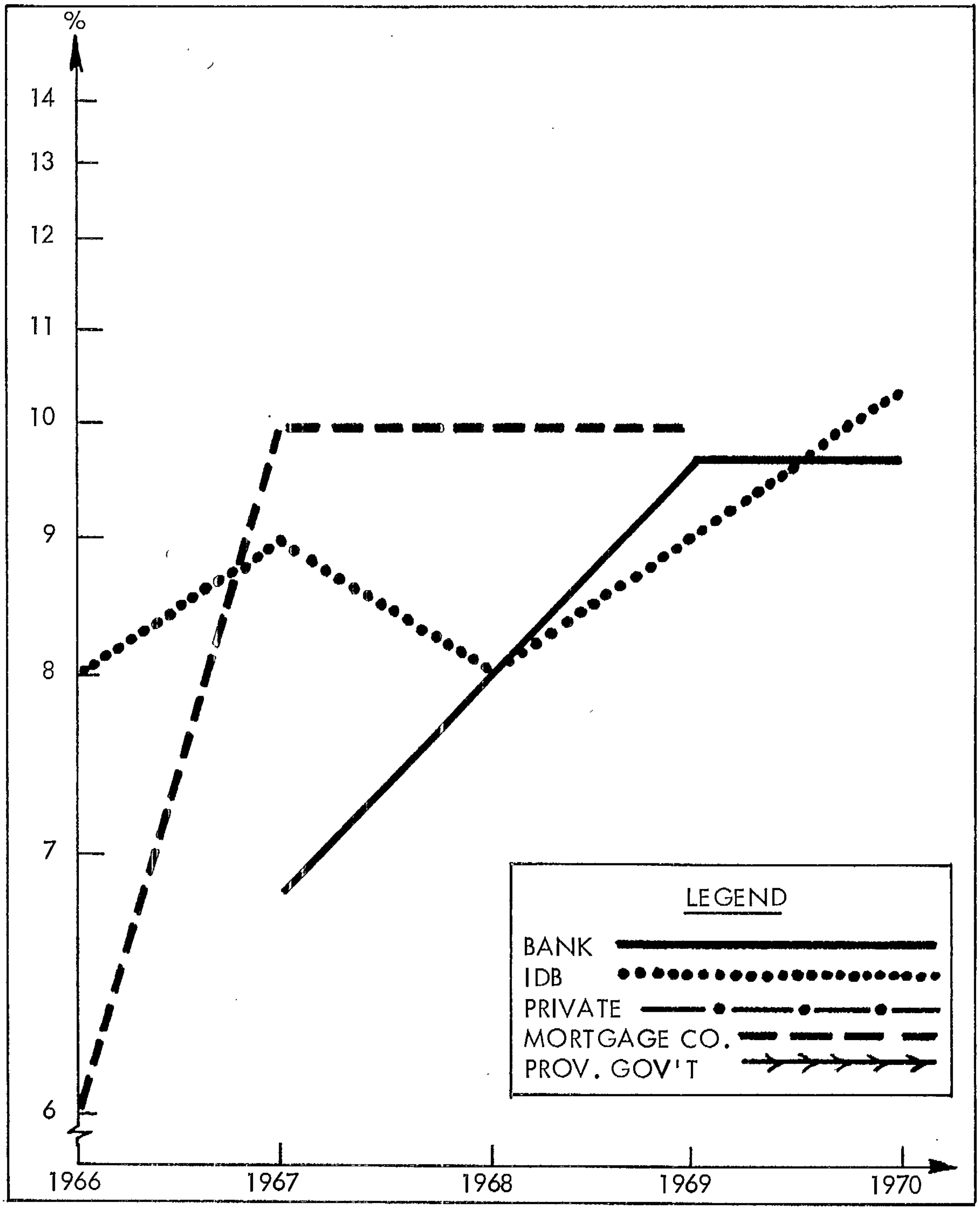
SOURCE: Preliminary Mail-Out Survey.

(GRAPH ON FOLLOWING PAGE)

GRAPH E124

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

THE YUKON AND NORTHWEST TERRITORIES



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey.

The non-campground accommodation sector of the Prairies, Yukon and Northwest Territories region is characterized by high gross productivity, both in total and per unit. The former is due to large size while the latter is mainly attributable to a high proportion of revenues from ancillary services such as food and beverages.

The average of 21.7 units per operation for this region is the highest of all regional averages. Despite the relatively low occupancy rates ranging from 22% for the "Needed, Tried and Got Credit" group to 57% for the "No Need for Credit" group, the average net return to capital, land and management is 18%, higher than the Canadian average of 14% and highest among the regional averages. Although operations making up the "highest-net-income" group tend to be large in size, the effect of size is not very apparent either upon net return to capital, land and management or upon the occupancy rate, considering the fact that the 75.6% of the region's operations with less than 26 units, had an average of 16.4% net return to capital, land and management, and had an average occupancy rate of 46.2%, which compares very favourably with the average net return to capital, land and management of 14.8% and the occupancy rate of 58.5% for the other 24.4% larger-size operations (26-to-100-units size group).

Operators in this region appear to be better managers than in most other provinces. Also, they are more aggressive borrowers. The following table compares the availability of accommodation services and facilities in various groups of non-campground operations.

The average non-campground operation in this region has a relatively high debt outstanding of $74,913 with a correspondingly low equity ratio of 65%. Despite this, the average present credit need was reported at a high $71,377.

TABLE E125

COMPARISON OF THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF NON-CAMPGROUND OPERATIONS

PRAIRIES, YUKON AND NORTHWEST TERRITORIES

	% of Operations with:					Gross Receipts to Capital & Land Value	Net Return to Capital, Land & Management
	Swimming Pools	Convention Halls	Licensed Lounges	Dining Rooms	Coffee Shops		
SIZE							
Less than 11 Units	0%	4%	59%	55%	35%	68%	22%
11 to 25 Units	5%	7%	46%	34%	34%	50%	12%
26 to 50 Units	6%	9%	50%	43%	64%	47%	15%
51 to 100 Units	0%	75%	82%	97%	82%	37%	15%
CREDIT NEED GROUPS							
No Need for Credit	0%	2%	57%	32%	50%	67%	16%
Needed, Tried and Got Credit	2%	0%	89%	78%	23%	66%	11%
Needed, Tried but Did Not Get Credit	7%	22%	45%	54%	38%	49%	10%
Needed, but Did Not Try to Get Credit	4%	11%	47%	46%	45%	39%	21%
"HIGHEST-NET-INCOME" GROUPS							
Prairies, YT & NWT	1%	56%	77%	83%	74%	39%	24%
Canada	7%	27%	75%	81%	34%	56%	23%
TOTAL AVERAGE							
Prairies, YT & NWT	3%	10%	53%	46%	43%	46%	18%
Canada	8%	10%	34%	50%	19%	42%	14%

SOURCE: Memorandum of Interview.

TABLE E126

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

PRAIRIE PROVINCES, YUKON & NORTHWEST TERRITORIES

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	361	107	285	606	1,359	82
Average number of units per operation	17.7	15.2	22.8	25.1	21.9	71
Average market value of land and capital per operation	$109,238	$120,607	$233,056	$287,848	$215,745	$1,159,854
Value of land and capital/unit	$6,185	$7,937	$10,212	$11,446	$9,857	$16,328
Gross income/capital and land value	67%	65%	49%	39%	46%	39%
Average occupancy rate	57%	22%	46%	50%	49%	50%
Net return to land, capital and management	16%	11%	10%	21%	18%	24%
Average original loan	$54,054	$33,627	$65,205	$80,893	$68,600	$268,618
Average present credit needed	-	$43,234	$110,807	$57,801	$71,377	$117,171
Average debt outstanding	$42,279	$66,206	$72,013	$92,059	$74,913	$354,453
Average owner equity	$66,959	$54,401	$161,043	$195,789	$140,687	$805,401
Equity ratio	61%	45%	69%	68%	65%	69%
% of gross receipts which could be repaid towards loans *	12%	8%	19%	13%	14%	14%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E127

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

PRAIRIE PROVINCES, YUKON & NORTHWEST TERRITORIES

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	452	575	256	76	1,359	82
Average number of units per operation	7.6	16.5	37.2	95.2	21.9	71
Average market value of land and capital per operation	$67,200	$151,100	$295,700	$1,300,000	$215,745	$1,159,854
Value of land and capital/unit	$8,809	$913	$7,938	$13,818	$9,857	$16,328
Gross income/capital and land value	67.5%	50%	46.9%	36.5%	46%	39%
Average occupancy rate	39.4%	51.5%	61.2%	49.3%	49%	50%
Net return to land, capital and management	21.7%	12.3%	14.7%	15.1%	18%	24%
Average original loan	$20,343	$50,579	$108,378	$309,699	$68,600	$268,618
Average present credit needed	$19,943	$71,252	$118,430	$207,071	$71,377	$117,171
Average debt outstanding	$20,866	$53,147	$136,623	$340,958	$74,913	$354,453
Average owner equity	$46,334	$97,953	$159,077	$959,042	$140,687	$805,401
Equity ratio	68.9%	64.8%	53.8%	73.8%	65%	69%
% of gross receipts which could be repaid towards loans *	12.7%	14.6%	12.8%	16%	14%	14%

* As reported by operators.

SOURCE: Memorandum of Interview.

(e) BRITISH COLUMBIA

British Columbia contains approximately 12.9% of Canada's accommodation operations. As the following table shows, it tends to be highly motel-intensive with a higher-than-proportional number of campgrounds.

TABLE E128

DISTRIBUTION OF OPERATIONS BY TYPE

	Distribution of Total Accommodation	Motels	Hotels	Others	Campgrounds
CANADA	100%	27.3%	29.5%	31.2%	12.0%
BC	12.9%	43.9%	17.2%	24.3%	14.6%

SOURCE: Preliminary Mail-Out Survey.

British Columbia's motels, hotels and "others" are distributed according to the following sizes:

TABLE E129

DISTRIBUTION OF OPERATIONS BY SIZE

SIZE	BRITISH COLUMBIA	CANADA
LESS THAN 11 UNITS	40.5%	38.6%
11 TO 25 UNITS	32.2%	44.5%
26 TO 50 UNITS	25.1%	13.4%
51 TO 100 UNITS	2.2%	3.4%

SOURCE: Memorandum of Interview.

Table E129 shows a large grouping of operations in the 26-to-50-units size class which is a higher efficiency group. Consequently, there is a smaller-than-average concentration in the 11-to-25-units size, although the less-than-11-units group contains 40.5% of operations, somewhat higher than the national average of 38.6%.

Table E130 demonstrates the distribution of "Present Credit Need" groups in British Columbia compared with Canada, at the time of interview:

TABLE E130

PRESENT CREDIT NEEDS AT THE TIME OF INTERVIEW

	NO NEED FOR CREDIT	NEEDED CREDIT		
		TRIED AND GOT CREDIT	TRIED BUT DID NOT GET CREDIT	DID NOT TRY TO GET CREDIT
CANADA	30.7%	3.2%	16.4%	49.7%
BRITISH COLUMBIA	25.9%	4.1%	26.7%	43.4%

SOURCE: Memorandum of Interview.

74.1% of British Columbia operators stated that they needed credit. Of those who needed credit, 58.5% did not try to borrow, with 5.5% of those needing credit succeeding in obtaining 2.8% of the total reported dollar need of approximately $144 million. The latter figure represents 18.1% of the total Canadian credit need reported at the time of interview. The average-size need in British Columbia was given as $56,000 versus $53,000 for Canada as a whole.

Table E131 shows the source, relative activity of that source, and average size of loan, for both primary and secondary loans issued in British Columbia in the years preceding the interview.

TABLE E131

PRIMARY AND SECONDARY LOANS FOR THE YEARS PRECEDING THE INTERVIEW

BRITISH COLUMBIA

SOURCE	% OF TOTAL DOLLAR AMOUNT OF LOAN	AVERAGE SIZE OF LOAN
PRIMARY (82% of Total)		
PRIVATE	75.5%	$87,927
MORTGAGE CO	5.9%	$53,863
BANK	12.2%	$61,092
IDB	2.7%	$31,730
PROV. GOV'T	-	-
FINANCE CO	-	-
OTHER	3.7%	$47,155
SECONDARY (18% of Total)		
PRIVATE	61.5%	$31,157
BANK	26.3%	$13,655
IDB	7.7%	$29,926
FINANCE CO	-	-
MORTGAGE CO	1.3%	$14,000
PROV. GOV'T	-	-
OTHER	3.3%	$16,285

SOURCE: Memorandum of Interview.

British Columbia depends to an inordinate degree on "private" sources for financing (75.5% of primary loans). In a previous section it was speculated that those cases are by and large due to ex-owners financing new owners. This explanation becomes more convincing when it is noted that only 9.9% of those in the "Needed, Tried, but Did Not Get Credit" groups reported "private" as one of the sources to which they had applied. The reason, of course, would be that potential new owners are not included in the survey. Private sources also provide the larger loans (average size is $87,927) followed by chartered banks at an average size loan of $61,092.

Conventional sources account for the second-largest source of financing, with chartered banks overshadowing mortgage companies, the reverse of the Canadian pattern. This might be due to the fact that this province has its own bank, the Bank of British Columbia.

The respondents who were in the "Needed, Tried, but Did Not Get Credit" group complained less about "High Interest" (38.6%) than the national average, but more about "Short Term" (64.0%). Table E132 illustrates some of the above observations:

TABLE E132

REASONS GIVEN BY
THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP
WHY LOANS WERE DECLINED

	BRITISH COLUMBIA	CANADA
INSUFFICIENT EQUITY	12.5%	24.6%
INSUFFICIENT AMOUNT	14.5%	10.0%
HIGH INTEREST	38.6%	53.4%
SHORT TERM	64.0%	47.1%
OTHER	17.2%	23.1%

SOURCE: Memorandum of Interview.

Again, there appears to be a higher incidence of borrowers turning down lenders, than vice versa.

Table E133 shows the sources to which the "Needed, Tried, but Did Not Get Credit" group applied.

TABLE E133

FINANCING SOURCES APPLIED TO BY

THE "NEEDED, TRIED, BUT DID NOT GET CREDIT" GROUP

	BRITISH COLUMBIA	CANADA
BANK	60.8%	56.2%
MORTGAGE CO.	46.3%	25.8%
IDB	46.5%	40.3%
PROV. GOV'T	2.5%	9.0%
PRIVATE	9.9%	15.6%
FINANCE CO.	2.0%	8.6%
OTHER	15.8%	6.4%

SOURCE: Memorandum of Interview.

British Columbia operators who attempted to satisfy their "Present Credit Needs" showed a greater reliance on the conventional lenders than the past pattern would have suggested. The IDB also received a sizeable proportion of loan applications, despite a relatively low degree of participation in the past as reported by operators*. The low proportion of application to "private" sources is consistent with the "transfer credit" hypothesis.

The following graph shows the movement of the interest rates of different credit sources for British Columbia. The trend is unmistakably upwards. Generally, each source and year for British Columbia has enough observations to give the trends statistical significance. The reasons for this general upward movement have been discussed in Part E, Section 4. The graph is accompanied by a table which gives the average interest rate and repayment period by year and source, and the number of operators involved in each average.

British Columbia's financial sources generally resemble the national average with regard to interest rates.

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* The IDB reported that it had granted a total of 318 loans amounting to $19 million to the "Hotels, Motels, and Other Lodgings" category in British Columbia from 1966 to 1970 which indicates a high participation.

TABLE E134

THE AVERAGE INTEREST RATE AND REPAYMENT PERIOD BY YEAR AND SOURCE, AND THE NUMBER OF OPERATORS INVOLVED IN EACH AVERAGE

BRITISH COLUMBIA

YEAR	BANK		PROVINCIAL GOV'T		PRIVATE		MORTGAGE COMPANIES		IDB		OTHER	
	Int. Rate	Rep.* Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term	Int. Rate	Rep. Term
1966	7.2% (30)	4.3 (30)			8.8% (8)	8.8 (8)	8.3% (4)	11.3 (4)	7.0% (6)	8.0 (6)	8.5% (4)	7.5 (4)
1967	7.7% (39)	5.0 (39)			8.3% (6)	8.8 (6)	8.2% (6)	15.0 (6)	7.8% (7)	9.0 (7)	12.4% (7)	6.0 (7)
1968	9.1% (88)	4.3 (88)	5.0% (2)	7.5 (2)	8.4% (20)	5.7 (20)	9.4% (10)	15.2 (10)	8.3% (18)	9.3 (18)	11.4% (8)	5.4 (8)
1969	9.8% (134)	3.2 (134)	10.0% (1)	1.0 (1)	10.6% (20)	7.9 (20)	11.9% (12)	9.0 (12)	9.6% (35)	9.2 (35)	9.9% (8)	2.9 (8)
1970	9.1% (100)	3.3 100)			10.2% (12)	7.7 (12)	22.0% (4)	4.6 (4)	10.2% (9)	9.3 (9)	11.7% (13)	6.0 (13)

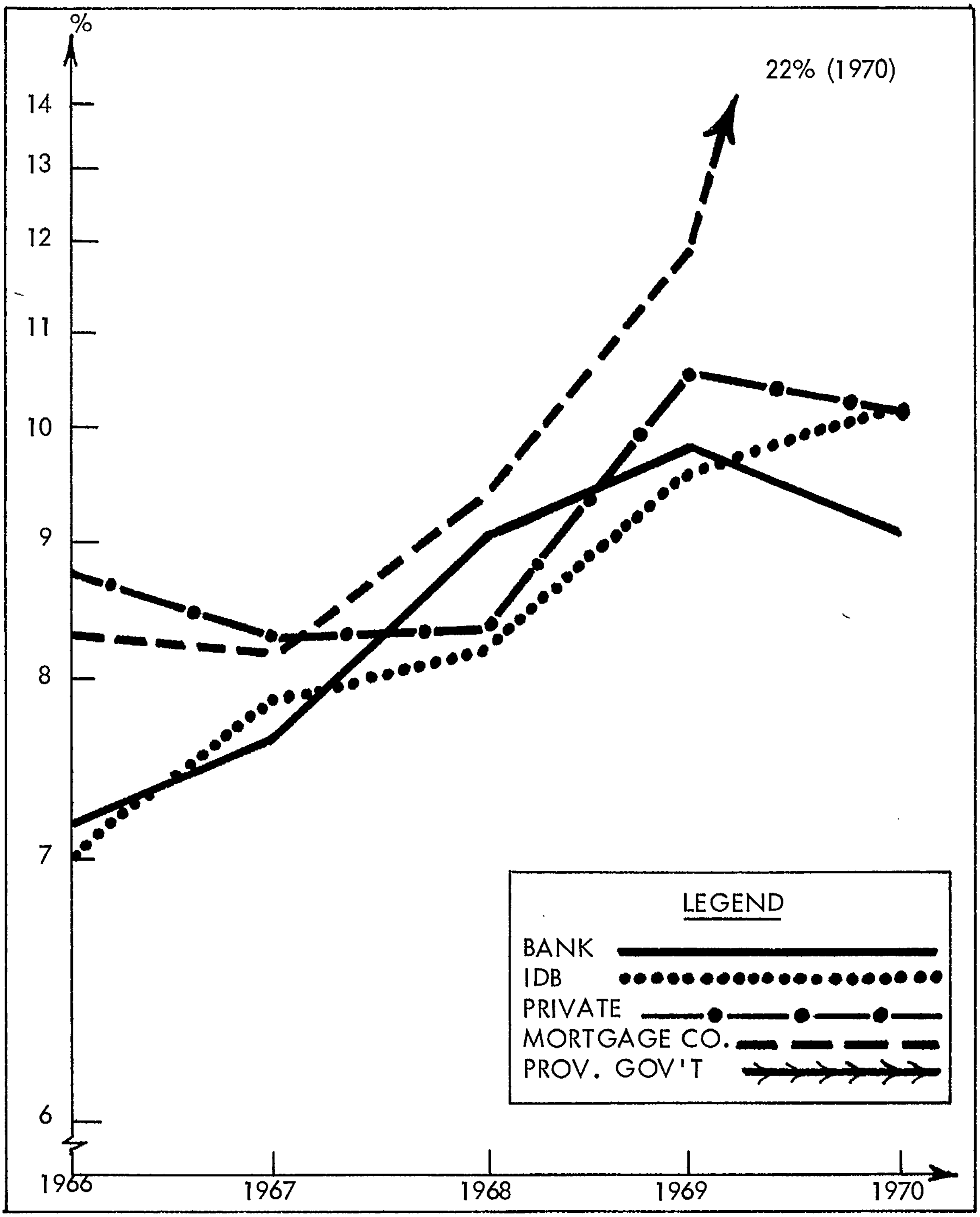
* Repayment Term is given in years.

SOURCE: Preliminary Mail-Out Survey.

GRAPH E135

THE MOVEMENT IN INTEREST RATES BY SOURCE OF LOANS TO THE ACCOMMODATION SECTOR - 1966 TO 1970*

BRITISH COLUMBIA



* (Plotted from previous table on a semi-log scale)

SOURCE: Preliminary Mail-Out Survey,

British Columbia's average non-campground operation has 19.6 units and an occupancy rate of 61%; both figures are significantly above the Canadian averages of 17.7 and 55% respectively. The average net return to capital, land and management is 15% (one percentage point above the national average), only half the return of 30% reported by the "highest-net-income" group. Tables E138 and E139 show a wide variation of occupancy rates and of net return by "Credit Need" groups, but considerably less variation by size of establishment. This would suggest that further improvement on a British Columbia operator's net profit position will primarily depend upon his ability to increase his gross productivity per unit rather than expanding the size of his business. This contention is consistent with the surprisingly low proportion of BC operators (compared with operators in other regions), with ancillary income-generating services, as shown in Table E136.

Table E137 shows a positive correlation between net return and the availability of services and facilities (other than sleeping facilities) among various size and "Credit Need" groups.

BC accommodation operators do not appear to have taken complete advantage of the favourable natural environment of the province*. The high average debt outstanding ($86,935 compared with the Canadian average of $50,453), the low equity ratio (48% compared with the national average of 69%) and the relatively high average "Present Credit Need" ($56,182 compared with $54,568 for Canada) suggest that the debt-carrying capacity of BC operators is on a more delicate balance than is generally true for other regions.

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* British Columbia with its coastal marine climate, and winter sports potential, is probably less seasonal than other provinces.

TABLE E136

COMPARISON OF THE AVAILABILITY OF ACCOMMODATION SERVICES AND FACILITIES BY REGION AND "HIGHEST-NET-INCOME" GROUPS

TOTAL AVERAGES

	ATLANTIC	QUEBEC	ONTARIO	PRAIRIES, YT & NWT	BRITISH COLUMBIA	CANADA
% of Operations with Swimming Pools	3%	8%	5%	3%	19%	8%
% of Operations with Convention Halls	9%	20%	7%	10%	4%	10%
% of Operations with Licensed Lounges	22%	66%	19%	53%	23%	34%
% of Operations with Dining Rooms	52%	79%	44%	46%	28%	50%
% of Operations with Coffee Shops	13%	13%	16%	43%	16%	19%
% Net Return/Capital and Land Value	9%	15%	12%	18%	15%	14%
"HIGHEST-NET-INCOME" GROUPS						
% of Operations with Swimming Pools	5%	5%	4%	20%	1%	7%
% of Operations with Convention Halls	6%	35%	25%	13%	56%	27%
% of Operations with Licensed Lounges	54%	100%	69%	80%	77%	75%
% of Operations with Dining Rooms	67%	71%	84%	84%	83%	81%
% of Operations with Coffee Shops	26%	19%	20%	58%	74%	34%
% Net Return/Capital and Land Value	15%	44%	19%	24%	30%	23%

SOURCE: Memorandum of Interview.

TABLE E137

COMPARISON OF THE AVAILABILITY OF SERVICES AND FACILITIES IN VARIOUS GROUPS OF NON-CAMPGROUND OPERATIONS

BRITISH COLUMBIA

	% of Operations with:					Gross Receipts to Capital & Land Value	Net Return to Capital, Land & Management
	Swimming Pools	Convention Halls	Licensed Lounges	Dining Rooms	Coffee Shops		
SIZE							
Less than 11 Units	3%	0%	0%	20%	0%	14%	6%
11 to 25 Units	18%	8%	27%	23%	15%	25%	12%
26 to 50 Units	48%	4%	48%	60%	40%	81%	22%
51 to 100 Units	0%	0%	100%	19%	19%	33%	10%
CREDIT NEED GROUPS							
No Need for Credit	10%	1%	45%	69%	31%	107%	24%
Needed, Tried and Got Credit	0%	8%	32%	32%	24%	29%	10%
Needed, Tried but Did Not Get Credit	39%	3%	17%	19%	9%	27%	13%
Needed, but Did Not Try to Get Credit	14%	6%	12%	10%	10%	24%	10%
"HIGHEST-NET-INCOME" GROUPS							
British Columbia	20%	13%	80%	84%	58%	111%	30%
Canada	7%	27%	75%	81%	34%	56%	23%
TOTAL AVERAGE							
British Columbia	19%	4%	23%	28%	16%	44%	15%
Canada	8%	10%	34%	50%	19%	42%	14%

SOURCE: Memorandum of Interview.

TABLE E138

ECONOMIC CHARACTERISTICS BY CREDIT NEED GROUP

MOTELS, HOTELS AND OTHERS

BRITISH COLUMBIA

	NO NEED FOR CREDIT	NEEDED, TRIED AND GOT CREDIT	NEEDED, TRIED, BUT DID NOT GET CREDIT	NEEDED CREDIT BUT DID NOT TRY TO BORROW	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	351	62	369	601	1,383	114
Average number of units per operation	22.2	11.7	26.8	14.4	19.6	33.0
Average market value of land and capital per operation	$155,869	$156,613	$189,241	$164,972	$168,762	$383,816
Value of land and capital/unit	$7,016	$13,343	$7,054	$11,437	$8,615	$11,542
Gross income/capital and land value	107%	29%	27%	24%	44%	111%
Average occupancy rate	70%	43%	50%	63%	61%	67%
Net return to land, capital and management	24%	10%	13%	10%	15%	30%
Average original loan	$81,436	$36,399	$86,465	$59,854	$69,427	$164,579
Average present credit needed	-	$28,911	$81,534	$43,430	$56,182	$241,705
Average debt outstanding	$97,576	$35,879	$97,835	$83,706	$86,935	$190,440
Average owner equity	$58,293	$120,734	$91,406	$81,266	$81,865	$193,376
Equity ratio	37%	77%	48%	49%	48%	50%
% of gross receipts which could be repaid towards loans *	16%	20%	23%	15%	18%	20%

* As reported by operators.

SOURCE: Memorandum of Interview.

TABLE E139

ECONOMIC CHARACTERISTICS BY SIZE OF OPERATION

MOTELS, HOTELS AND OTHERS

BRITISH COLUMBIA

	LESS THAN 11 UNITS	11 to 25 UNITS	26 to 50 UNITS	51 to 100 UNITS	GRAND TOTAL	"HIGHEST-NET-INCOME" GROUP
Total number of operations	560	445	347	31	1,383	114
Average number of units per operation	6.4	18.7	38.4	59.3	19.6	33.0
Average market value of land and capital per operation	$96,964	$177,700	$258,800	$329,000	$168,762	$383,816
Value of land and capital/unit	$15,100	$9,509	$6,734	$5,543	$8,615	$11,542
Gross income/capital and land value	14.4%	24.5%	81.3%	33.2%	44%	111%
Average occupancy rate	65.7%	60.1%	53.6%	68%	61%	67%
Net return to land, capital and management	5.7%	11.8%	22.1%	10%	15%	30%
Average original loan	$34,757	$53,395	$143,381	$35,000	$69,427	$164,579
Average present credit needed	$14,122	$77,954	$95,193	-	$56,182	$241,705
Average debt outstanding	$37,968	$82,029	$155,139	$25,000	$86,935	$190,440
Average owner equity	$58,996	$95,671	$103,661	$304,000	$81,865	$193,376
Equity ratio	60.8%	53.8%	40.1%	92.4%	48%	50%
% of gross receipts which could be repaid towards loans *	14.3%	19.8%	20.1%	10%	18%	20%

* As reported by operators.

SOURCE: Memorandum of Interview.

Section 7. Analysis of Campgrounds in Canada

Campground operations are analysed separately from the other types of accommodation due to their distinct economic and physical characteristics and also because of some limitations of the survey data.

Campgrounds* (with the exclusion of government-owned operations) make up 12.0% of the total accommodation sector in Canada. The total number of private campsites in Canada in 1970 was 220,505 — 137,616 sites in pure campground operations and 82,889 in mixed operations (i.e. campsites owned and operated by operators as subsidiary sources of income to other types of accommodation). The distribution of campsites among size groups is shown in Table E140.

Ontario, Quebec, and British Columbia collectively account for more than 85% of the total number of private campsites in Canada. Tables E141 to E144 show the distribution of campgrounds and campsites by province and by size. Of the large campground operations, 22.2% account for more than 59% of the total number of campsites, while small operations (with less than 50 units each) constitute 53% of the total number of campgrounds but only 18% of the total number of campsites. This description does not allow for very meaningful inference since campgrounds operated by federal, provincial and municipal governments are not included. The survey data has nevertheless been tabulated, as it may be useful for future research on campground accommodation.

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* This includes all "pure" campgrounds, plus those mixed campgrounds (operations which contain both campsites and other types of accommodation) which have such a low proportion of other types of accommodation units, that they can properly be called campgrounds. This number is therefore greater than the 1765 pure campgrounds, but less than the 4426 establishments in Table E140.

TABLE E140

CAMPGROUNDS BY SIZE OF OPERATION

SIZE (In Units)	PURE CAMPGROUNDS				MIXED CAMPGROUNDS			TOTAL CAMPSITES	
	No. of Camp-grounds	% of Total Camp-grounds	No. of Units	% of Total Units	No. of Oper-ations	No. of Units	% of Total Units	No. of Units	% of Total Units
Less than 26 units	507	28.7%	7,524	5.5%	1,829	20,901	25.2%	28,425	12.9%
26 to 50 units	433	24.5%	17,148	12.5%	353	12,793	15.4%	29,941	13.6%
51 to 100 units	433	24.5%	31,553	22.9%	317	20,764	25.1%	52,317	23.7%
More than 100 units	392	22.2%	81,391	59.1%	162	28,431	34.3%	109,822	49.8%
TOTAL	1,765	100%	137,616	100%	2,661	82,889	100%	220,505	100%

SOURCE: Preliminary Mail-Out Survey.

TABLE E141

DISTRIBUTION OF CAMPGROUNDS AND CAMPSITES* BY PROVINCE

	PURE CAMPGROUNDS				MIXED CAMPGROUNDS			TOTAL CAMPSITES	
	CAMPGROUNDS		CAMPSITES		NO. OF CAMP GROUNDS	CAMPSITES		NO.	%
	NO.	%	NO.	%		NO.	%		
NFLD	5	0.2%	23	0.01%	20	96	0.8%	119	0.05%
PEI	23	1.3%	1,608	1.2%	18	331	0.7%	1,939	0.9%
NS	75	4.3%	6,111	4.4%	41	2,207	1.5%	8,318	3.8%
NB	32	1.8%	3,942	2.9%	27	959	1.0%	4,901	2.2%
QUE	638	36.2%	46,879	34.1%	374	18,580	14.0%	65,459	29.7%
ONT	588	33.3%	57,935	42.1%	1,129	29,859	42.4%	87,794	39.8%
MAN	30	1.7%	1,786	1.3%	41	923	1.5%	2,709	1.2%
SASK	2	0.1%	139	0.1%	87	2,059	3.2%	2,198	1.0%
ALTA	130	7.4%	4,578	3.3%	98	3,741	3.7%	8,319	3.8%
BC	242	13.6%	14,615	10.6%	805	23,826	30.2%	38,441	17.4%
YT&NWT	-	-	-	-	21	308	0.8%	308	0.13%
CANADA	1,765	100%	137,616	100%	2,661	82,889	100%	220,505	100%

* Excluding Government-owned operations.

SOURCE: Preliminary Mail-Out Survey.

TABLE E142

DISTRIBUTION OF PURE CAMPGROUNDS BY PROVINCE (IN PERCENTAGES)

PROVINCE	UNITS					OPERATIONS				
	Less than 26	26 to 50	51 to 100	More than 100	TOTAL	Less than 26	26 to 50	51 to 100	More than 100	TOTAL
NFLD	100%	-	-	-	100%	100%	-	-	-	100%
PEI	8.5%	-	34.8%	56.7%	100%	40.0%	-	30.0%	30.0%	100%
NS	3.4%	13.4%	18.4%	64.7%	100%	15.2%	30.3%	24.2%	30.3%	100%
NB	1.2%	5.4%	13.9%	79.5%	100%	7.1%	21.4%	21.4%	50.0%	100%
QUE	7.3%	13.8%	19.8%	59.0%	100%	31.4%	25.7%	20.0%	22.9%	100%
ONT	3.5%	10.2%	22.7%	63.6%	100%	21.3%	23.6%	29.8%	25.2%	100%
MAN	0.3%	23.9%	14.3%	61.6%	100%	7.7%	46.2%	15.4%	30.8%	100%
SASK	-	-	100%	-	100%	-	-	100%	-	100%
ALTA	15.5%	15.8%	18.9%	49.8%	100%	66.7%	15.9%	8.8%	8.8%	100%
BC	6.5%	17.5%	38.5%	37.5%	100%	26.4%	27.3%	33.0%	13.2%	100%
YT&NWT	-	-	-	-	-	-	-	-	-	-
CANADA	5.5%	12.5%	22.9%	59.1%	100%	28.7%	24.5%	24.5%	22.2%	100%

SOURCE: Preliminary Mail-Out Survey.

TABLE E143

DISTRIBUTION OF ESTABLISHMENTS HAVING CAMPSITES AND OTHER UNITS BY PROVINCE (IN PERCENTAGES)

PROVINCE	UNITS					OPERATIONS				
	Less than 26	26 to 50	51 to 100	More than 100	TOTAL	Less than 26	26 to 50	51 to 100	More than 100	TOTAL
NFLD	100%	-	-	-	100%	100%	-	-	-	100%
PEI	51.7%	48.2%	-	-	100%	75.0%	25.0%	-	-	100%
NS	9.7%	10.7%	44.4%	35.1%	100%	38.8%	16.7%	33.3%	11.1%	100%
NB	15.7%	7.1%	41.6%	35.6%	100%	66.7%	8.3%	16.6%	8.3%	100%
QUE	12.8%	16.7%	21.8%	48.7%	100%	55.5%	20.7%	14.0%	9.8%	100%
ONT	28.5%	15.2%	22.9%	33.5%	100%	72.7%	11.7%	9.9%	5.7%	100%
MAN	33.1%	27.2%	39.8%	-	100%	66.7%	16.7%	16.7%	-	100%
SASK	46.7%	14.5%	25.5%	13.3%	100%	76.3%	10.5%	10.5%	2.6%	100%
ALTA	21.1%	6.7%	33.8%	38.4%	100%	67.4%	7.0%	16.3%	9.3%	100%
BC	30.0%	15.9%	26.6%	27.5%	100%	68.8%	13.0%	12.7%	5.4%	100%
YT&NWT	64.4%	35.6%	-	-	100%	88.9%	11.1%	-	-	100%
CANADA	25.2%	15.4%	25.1%	34.3%	100%	68.7%	13.3%	12.0%	6.1%	100%

SOURCE: Preliminary Mail-Out Survey.

TABLE E144

DISTRIBUTION OF ALL ESTABLISHMENTS HAVING CAMPSITES (PURE AND MIXED) BY PROVINCE (IN PERCENTAGES)

PROVINCE	UNITS					OPERATIONS				
	Less than 26	26 to 50	51 to 100	More than 100	TOTAL	Less than 26	26 to 50	51 to 100	More than 100	TOTAL
NFLD	100%	-	-	-	100%	100%	-	-	-	100%
PEI	15.9%	8.2%	28.8%	47.1%	100%	55.6%	11.1%	16.7%	16.7%	100%
NS	5.1%	12.7%	25.3%	56.9%	100%	23.5%	25.5%	27.5%	23.5%	100%
NB	4.0%	5.8%	19.3%	70.9%	100%	34.6%	15.4%	19.2%	30.8%	100%
QUE	8.8%	14.7%	20.4%	56.1%	100%	40.3%	23.9%	17.8%	18.0%	100%
ONT	11.9%	27.6%	7.2%	53.4%	100%	55.1%	15.8%	16.7%	12.4%	100%
MAN	11.4%	25.0%	23.0%	40.6%	100%	41.9%	29.0%	16.1%	12.9%	100%
SASK	43.8%	13.6%	30.2%	12.4%	100%	74.4%	10.3%	12.8%	2.6%	100%
ALTA	18.0%	11.7%	25.6%	44.7%	100%	67.0%	12.0%	12.0%	9.0%	100%
BC	21.1%	16.5%	31.1%	31.3%	100%	59.0%	16.3%	17.4%	7.2%	100%
YT&NWT	64.4%	35.6%	-	-	100%	88.9%	11.1%	-	-	100%
CANADA	12.9%	13.6%	23.7%	49.8%	100%	52.8%	17.8%	17.0%	12.5%	100%

SOURCE: Preliminary Mail-Out Survey.

The average number of campsites per pure campground operation for the various provinces is as follows:

TABLE E145

AVERAGE NUMBER OF CAMPSITES PER PURE OPERATION BY PROVINCE

Newfoundland	5.0
Prince Edward Island	70.5
Nova Scotia	81.2
New Brunswick	123.5
Quebec	73.4
Ontario	98.5
Manitoba	60.3
Saskatchewan	61.0
Alberta	35.2
British Columbia	60.5
Yukon & Northwest Territories	-
CANADA	78.0

SOURCE: Preliminary Mail-Out Survey.

Since gross receipts per campsite generally tend to be small and campground operations are necessarily seasonal, the viability of this type of business largely depends upon two factors:

- the size of the operation;
- ancillary services and other accommodation-type units which may supplement income from the campsites.

The total "Present Credit Need" reported by campground operators at the time of interview was $33 million of which 72.7% was reported by respondents who "Needed but Did Not Try to Get Credit", 24.2% was reported by those who "Needed, Tried, but Did Not Get Credit", and 1.5% by the group which "Needed, Tried, and Got Credit".

The following table shows the total amount of the "Present Credit Need" for each region and the average percent of gross receipts which operators in each region indicated they would be able to set aside for debt repayment.

TABLE E146

PRESENT CREDIT NEED AND PROPORTION OF GROSS RECEIPTS WHICH CAN BE ALLOCATED FOR REPAYMENT OF LOANS BY REGION

REGION	TOTAL PRESENT CREDIT NEED	AVERAGE PROPORTION OF GROSS RECEIPTS WHICH CAN BE ALLOCATED FOR LOAN REPAYMENT
ATLANTIC PROVINCES	$929,100	13%
QUEBEC	$11,621,160	24%
ONTARIO	$7,384,920	17%
PRAIRIES, YT&NWT	$1,093,260	19%
BRITISH COLUMBIA	$12,090,840	17%
CANADA	$33,119,280	19%

SOURCE: Memorandum of Interview.

Although the supply of campsites has been one of the fastest growing trends in recent years, not enough historical data was kept to permit reliable supply projections for future years.

Campers are predominantly in the younger groups of travellers or families with children who seek togetherness and the excitement of outdoor life. Although these nature lovers usually do not spend much money on their trip, they do require a substantial outlay on camping equipment.

There may also be a substantial element of camping by default. During the peak season when non-campground establishments in many areas cannot accommodate all the demand, campgrounds may take up the difference. This would suggest that a traveller has a series of preferences, so that when he cannot satisfy a given one, he moves down his preference list. For instance, he may prefer motels, but he carries his camping gear in the car "just in case."

The future growth of this market will to some extent depend upon the steps taken by governments and private business to improve the services and facilities on these sites such as washrooms, baths, showers, electricity, clean drinking-water, coin-operated washers and dryers, sanitation hook-ups, etc.

PART F - OTHER CONSIDERATIONS

Section 1. The Kaplan Report

In 1969, the Travel Industry Branch commissioned a desk research survey, augmented by interviews, to be carried out by Kaplan Consulting Associates Ltd. of Montreal. The objective of the study was to determine whether there was a need for a federal program of financial and/or other assistance for the travel industry in Canada. The result, entitled "A Preliminary Inquiry into Government Aid to the Canadian Travel Industry", was published in September, 1969.

The report consisted of an examination of the benefits of tourism to Canada, the characteristics of the tourist plant in Canada, tourism financing (in Canada and abroad), and the alternative approaches to industry assistance which were open to the Federal Government.

This examination resulted in the following conclusions and recommendations*:

1. There is insufficient evidence, at present, that the travel industry needs a separate financing instrument.

2. Tax incentives, low cost loans, very long-term loans, etc. will not solve the industry's main problem: a lack of good management.

3. A Planning Advisory Board should be established to assist the industry and Government.

4. Assistance to this industry should be in the form of:

   (a) subsidization of a standard rating system for accommodation;

   (b) establishment of a Guaranteed Loan program;

   (c) a managerial development program;

   (d) node planning and infrastructure development;

   (e) where necessary, public construction, leased to concessionaires.

5. A thorough study should be made in order to determine cost, feasibility and execution of the above recommendations.

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* The conclusions and recommendations are quoted from page 1 of the report.

Section 2. The Supply of and Demand for Accommodation in Canada

This part of the report summarizes the findings of a separate although necessarily limited study on "the present demand and future market potential for accommodation facilities across Canada, and our capacity to meet this demand", conducted by the Travel Industry Branch early in 1971. The study was undertaken, in the midst of work on the main project, because it became clear that information on the actual and projected state of the supply of and demand for accommodation facilities across Canada would have a major bearing on the urgency with which governments should consider any problems relative to the financing of the industry.

Technical Considerations

The demand and supply factors are primarily considered in terms of 1970, 1975 and 1980, data projected from historical series by the use of mathematical functions.

A long-term economic forecast attempts to predict in quantitative terms what may happen to the economy as a whole or to a sector of the economy on the basis of certain assumptions. It is thus a conditional prediction of future economic events; "conditional" because it implies that the predictions will turn out to be right only if the assumed conditions are satisfied. In this supply and demand study, the two basic assumptions were: (a) that past trends would continue and (b) that no major change in policies would occur to offset these trends. One of the most fudamental objectives of economic forecasting is to enable policy makers to make intelligent decisions to improve future economic conditions. Thus, certain decisions may be taken to avoid the conditions forecast and thus prevent the "prediction" from realizing itself. A reader should, therefore, not interpret these forecasts as statements of what will probably happen.

Furthermore, it must be kept in mind that predicting what may happen to an industry on the whole does not yield reliable estimates of what may occur in certain locations under certain specific conditions. A prediction of a general surplus (or shortage) of accommodation facilities for a province may well be consistent with the opposite conditions in a certain location of the province, for a certain type of accommodation and/or during a certain time of the year.

The analytical approach used in this demand and supply study is to a very great extent determined by the nature and amount of basic data available on the subject. This is still very sparse (attention to this problem is a matter of priority).

On the supply side, the main data sources are: Statistics Canada for hotels, the MacLean-Hunter Research Bureau for motels, and the current TIB Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry for information on the seasonality of hotel and motel operations. The supply figures for

1970 are interpolated from the same sets of historical data, using the same mathematical techniques as those employed in the projections for 1975 and 1980. This approach was taken for two reasons:

(a) neither Statistics Canada, nor the MacLean-Hunter Research Bureau was able to provide the figures for 1970;

(b) since the figures for 1970 were derived from the same sets of historical data using the same mathematical techniques as those employed in the projections for 1975 and 1980, these estimates can be compared with the 1970 supply figures obtained from other sources (e.g. from the provinces, from the Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry, from the Acres Research and Planning Limited study conducted for the Canadian Tourist Association, (now renamed the Travel Industry Association of Canada) to give us a base for assessing the adequacy or inadequacy of our projections.

One of the main difficulties encountered during the study was the lack of a common terminology for different types of traveller accommodation amongst provinces. Thus, we find for example, that while our estimated total number of establishments or rental units for 1970 for all types of accommodation within a province may compare very closely with the figures compiled by that province, the number of establishments or rental units for any particular type of accommodation may be considerably different from the provincial figures.

The estimated total number of rental units for 1970 for all types of non-campground accommodation for Canada is slightly higher than the aggregate of the totals reported by various provinces but lower than the figures derived from the Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry. The number of hotels projected by the Acres Research and Planning Limited study for 1970 is comparable to this section's.

Serial data for various forms of accommodation is quite incomplete. In the case of campsites, it is completely lacking, thus rendering a projection for campsites impossible.

On the demand side, there exist practically no data on domestic travel apart from those fragmentary data published by Traveldata Ltd. for the Canadian Government Travel Bureau*. Consequently, demand estimates for 1970, 1975 and 1980 are primarily based on provincial population and income growth and the anticipated growth in the proportion of Canadians taking one or more trips away from home**. Total demand for three types of trips, namely, holiday trips, business trips and personal trips are projected to 1975 and 1980. Both the least square and the exponential smoothing functions are used to derive the final set of data for hotels and motels presented in Table F8.

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* Canadian Travel Survey, 1971, now being conducted will provide much important data in this area late in 1972 (TIB and Statistics Canada).

** Foreign demand is projected from past trends using an exponential smoothing function.

DEFINITIONS

The definitions used in this section on supply and demand, for "Hotels, Motels and Others" are compatible with those used in Statistics Canada Catalogue No.63-204 and the MacLean-Hunter "Canadian Hotel and Restaurant" publication.

Hotels:

Establishments with six or more rooms accessible from the interior, providing lodging or lodging and meals for transient guests.

Establishments designated as motor hotels and distinguished from motels usually come into this classification.

Also included in this classification are resort hotels where sleeping accommodation is provided in the form of cabins or cottages, but central dining room, administration and entertainment facilities are provided in the main lodge.

Seasonal hotels include such businesses as resort hotels, hunting or fishing lodges, ski lodges or chalets and dude ranches.

Motels:

Establishments with the majority of rooms accessible from the exterior, providing lodging or lodging and meals for transient guests and providing automobile parking facilities easily accessible from the sleeping accommodation.

Others:

All non-campground establishments not already included in the two prior groups.

FACTORS INFLUENCING MARKET DEMAND

In drawing the final conclusions, both functionally and subjectively, heavy weight is given to the following factors working to change market demand:

(a) The exponential growth characteristics of tourism

Table F1, for example, describes the trend in vacation intentions per 100 Canadians from 1960 through 1965, 1970, 1975 to 1980 as 45.2%, 48.5%, 52.3%, 59.6% and 68.3% respectively.

TABLE F1

PROJECTION OF VACATION INTENTIONS PER 100 CANADIANS INTERVIEWED

YEAR	PLAN A VACATION AWAY FROM HOME
1960	45.2%
1961	45.0%
1962	39.8%
1963	39.2%
1964	41.0%
1965	48.5%
1966	51.4%
1967	53.4%
1968	50.6%
1969	51.1%
1970	52.3%
1971**	52.8%**
1975**	59.6%**
1980**	68.3%**

SOURCES: "Travel Market in Canada" MacLean-Hunter Research Bureau, p. 21.

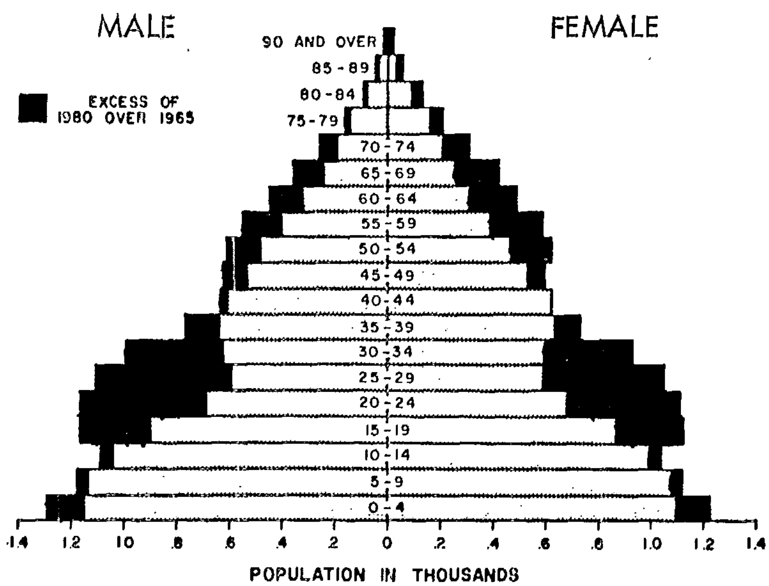
** Projections by Travel Industry Branch, Office of Tourism.

(b) The changing age structure of the Canadian population

Chart F2 shows the changing structure of the Canadian population in the 1970's and 1980's. The proportion of Canadians between 15 and 40 years of age significantly increases during this period (almost double the 1965 level). This implies an increasing demand for the basic necessities of life. On the other hand, the demand for luxuries which is associated with the 40-50 age group appears to be in a downward trend through the middle of the 1980's. Changes in age composition would imply a different pattern of consumer preferences for travel activities and, possibly, different requirements for accommodation facilities.

CHART F2

AGE STRUCTURE OF THE POPULATION, 1965 AND 1980



SOURCE: Based on data from Statistics Canada and estimates by Economic Council of Canada.

(c) Canada's potential gross national product and the growth potential of the middle and low age-and-income groups

More Canadians in the middle and low age-and-income groups means a higher propensity to travel and spend. Canada's potential growth rate will be high for the 1970's both in relation to historical experience and in relation to the potential growth rates of most other industrial countries.

To attain potential output in 1975, Gross National Product (in constant 1969 dollars) will need to rise at an average annual rate of about 5.5% from 1969 to 1975; this would entail an increase in the Gross National Product (in 1969 dollars) of over $30 billion to a level close to $110 billion in 1975. Over the last half of the 1970's, the potential growth rate of the Canadian economy would still be over 5%. This would imply a further increase in GNP in the latter part of the 1970's of about an equivalent real dollar magnitude, so that potential GNP by 1980 would be of the order of $140 billion (1969 dollars)*.

(d) The future availability of leisure time

It has been estimated that the total leisure time of the entire population of the United States nearly tripled in the years between 1900 and 1950 and will more than double between 1950 and 2000**. The four-day-work week is no longer a thing of the future; more than 50 major American companies already have this written in their labour contracts. It is anticipated that by 1985, more than 80%*** of U.S. employers will adopt this policy.

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* Economic Council of Canada, Performance and Potential Mid-1950 to Mid-1970, September 1970, pp. 66.

** J.L. Knetsch and M. Clawson, Economics of Outdoor Recreation, John Hopkins University Press, Baltimore, 1966.

*** Life Magazine, March 4, 1971.

TABLE F3

THE AVERAGE LENGTH OF THE WORK WEEK

YEAR	LENGTH OF AVERAGE WORK WEEK
1850	70 Hours
1900	60 Hours
1920	50 Hours
1970	40 Hours

Table F3 would indicate that the average work week will be approximately 30 hours by the year 2000.

In brief, a rising income, more leisure time (a shorter work-week, a longer paid vacation , an earlier retirement, a longer life expectancy), a larger proportion of people in younger age-groups, a higher degree of urbanization — all are strong factors working to increase the demand for travel/tourism services. The scale of this increased demand in its total and in its detail for services by type, time and place must be considered in present planning for the future growth of the accommodation sector of the Canadian travel industry.

SUMMARY OF SUPPLY AND DEMAND ANALYSIS

(a) For varied reasons*, the number of hotels** in Canada appears to have remained fairly static since 1951. In fact, with the exception of the provinces of Quebec and Newfoundland, the long-term trends in other provinces have been decreasing. The total number of hotels in Canada for the years 1951, 1956, 1961, 1966, 1968 was 5092, 5067, 5128, 4685 and 4769 respectively.

This reduction in the number of establishments, in most cases, has been compensated for by an accompanying increase in the number of rental units and bed-capacity, from 146,353 units in 1950 to 158,124 units in 1968 and 168,449 units projected for 1980.

(b) The number of motels, on the other hand, has steadily increased during the past decade. It is estimated that by 1980, the total number of motels in Canada will have doubled and the number of motel-rental-units will have increased by two and a half time the present level. The number of motels for 1960 and 1967, and the projected figures for 1970 and 1980 are 4,403, 5,079, 5,861 and 10,995 respectively, and the corresponding number of motel units is 58,867, 85,846, 110,474 and 269,979 units respectively.

(c) Broadly speaking, the total supply of accommodation facilities across Canada over any 12 consecutive months' period exceeds the total demand during that period, i.e. the average annual occupancy rate is less than 100% (see Table F4).

(d) However, a generalization of this nature is obviously misleading, for it overlooks the wide variations in the supply and demand for various types of tourist facilities in different areas across Canada, at different times of the year.

Thus, while the study may show an overall surplus of supply for a province, it is quite conceivable that shortage can occur at a certain time for a certain type of accommodation in a certain area while over-supply exists at the same time in another area of the province for the same type of accommodation. In the present study, it has not been possible to identify specific problems of specific regions. However, this project is of obvious and crucial importance and, therefore, should be undertaken at an early date.

> (i) Chart F5 (incorporating the supply and demand data presented in Tables F8 and F9), depicts the actual shapes of supply and demand curves for hotels and motels in Canada — a general shortage of supply during the summer and a surplus during the winter. Thus, the accommodation sector must, in a practical way, face continuing peaks of demand during the months of July and August, or work to smooth out this demand.

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* Fire, foreclosure, changes in classification group considered as hotels, more stringent requirements by provincial liquor licensing authorities, etc.

** Hotels include both large and small hotels (see definitions).

TABLE F4

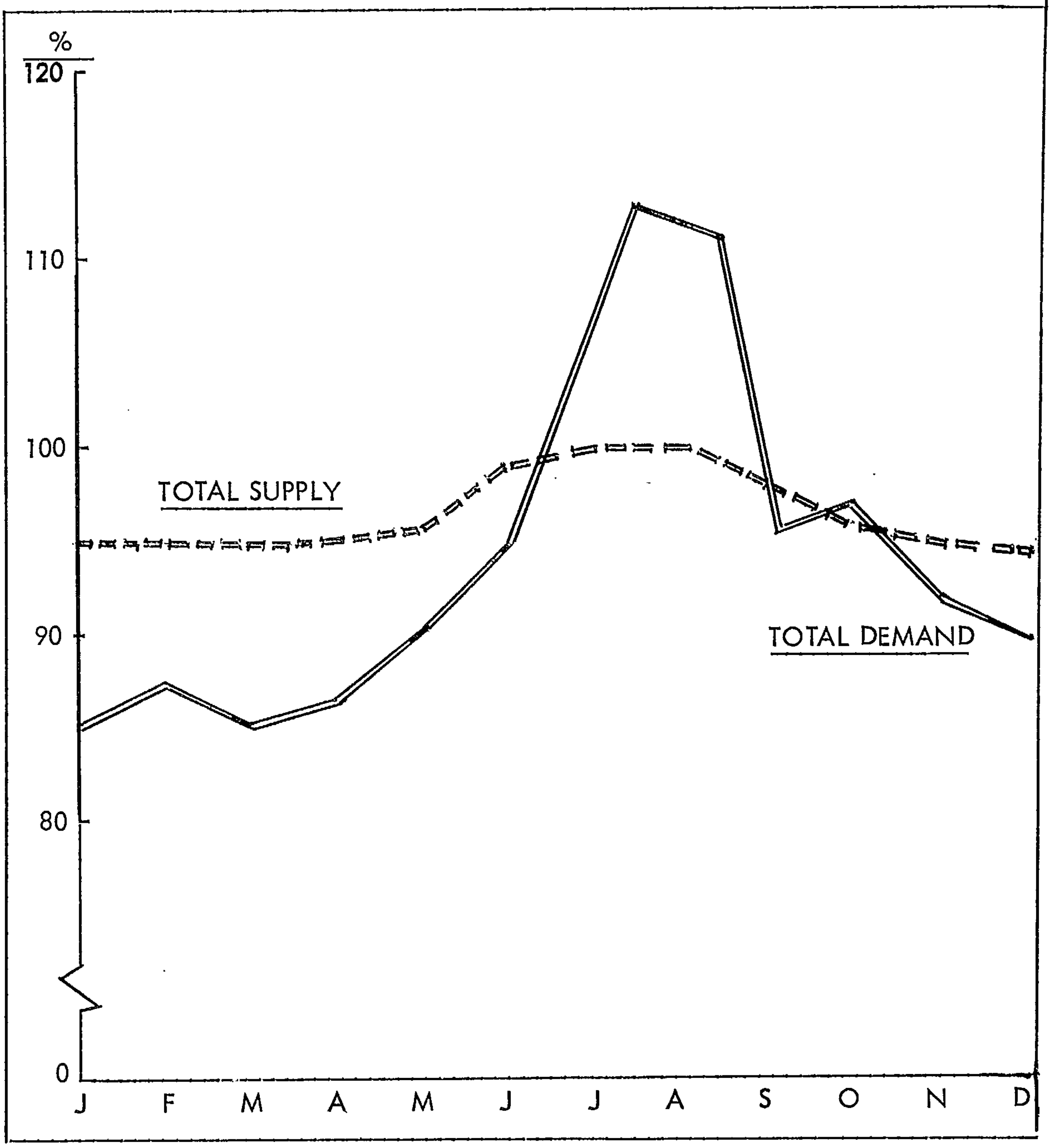
ANNUAL AVERAGE OCCUPANCY FOR HOTEL, MOTEL AND OTHER NON-CAMPGROUND ACCOMMODATIONS IN CANADA BY PROVINCES 1970, 1975, 1980.

PROVINCE	AVERAGE OCCUPANCY		
	1970	1975	1980
NFLD	55%	49%	42%
PEI	47%	59%	63%
NS	58%	62%	51%
NB	64%	45%	31%
QUE	48%	50%	50%
ONT	61%	60%	59%
MAN	52%	57%	54%
SASK	42%	42%	37%
ALTA	47%	49%	50%
BC	54%	57%	61%
CANADA	54%	54%	53%

SOURCE: Projected by Travel Industry Branch, Office of Tourism.

CHART F5

SUPPLY AND DEMAND CURVES FOR
HOTELS AND MOTELS IN CANADA 1970



SOURCE: Travel Industry Branch, Office of Tourism.

(ii) Preliminary projections of supply and demand, and of occupancy rates were made for a typical summer day in July (see Table F6). For Canada as a whole, as might be expected, these showed occupancy rates of 106% (1970), 108% (1975) and 106% (1980), reflecting the type of demand pressure at this time of year causing general accommodation shortage (although it is apparent any detailed examination of this would show wide swings in different provinces and between individual operations).

(iii) Similarly, projections for a typical winter day in January reflected a general surplus of supply (comparable occupancy rates of 27%, 26% and 27%).

Conclusions from this information and pertinent to accommodation financing considerations, are that for the sector to improve occupancy rates and thus economic viability, an increased proportion of operations would have to provide specialized types of services or activities to attract market interest in competition with counter services in other regions or abroad; or provide facilities/attractions of the special nature necessary to increase winter, fall or spring business; and they would have to do all of these things at sufficient levels of profitability to attract a normal rate of capital investment.

(iv) Chart F7 illustrates the interplay of supply and demand under much-improved conditions. The demand curve is much flatter though still somewhat seasonal while the shape of the supply curve reflects the various specialized services offered.

There is evidence during recent years of some improvement in occupancy rates during the "shoulder" months (May, June, September and October) working towards a smoothing-out of the seasonal demand. It can be noted with some satisfaction that these clearly derive from changes in habits, changes in the provision of supply to serve these periods, and from some success of promotion concentrated on solving basic problems of seasonality. A continuing and urgent need exists for the further development of a wider expertise and concentrated programs (both on the side of supply development and of demand promotion) directed to the fulfillment of a smoother flow of demand by seasons and the resulting improvement of the economies of a larger percentage of operations in the accommodation sector.

TABLE F6

PROJECTED DEMAND, SUPPLY AND OCCUPANCY RATES
FOR HOTELS AND MOTELS, AND FOR "OTHER" TYPES OF ACCOMMODATION

(FOR A BUSY DAY IN JULY)

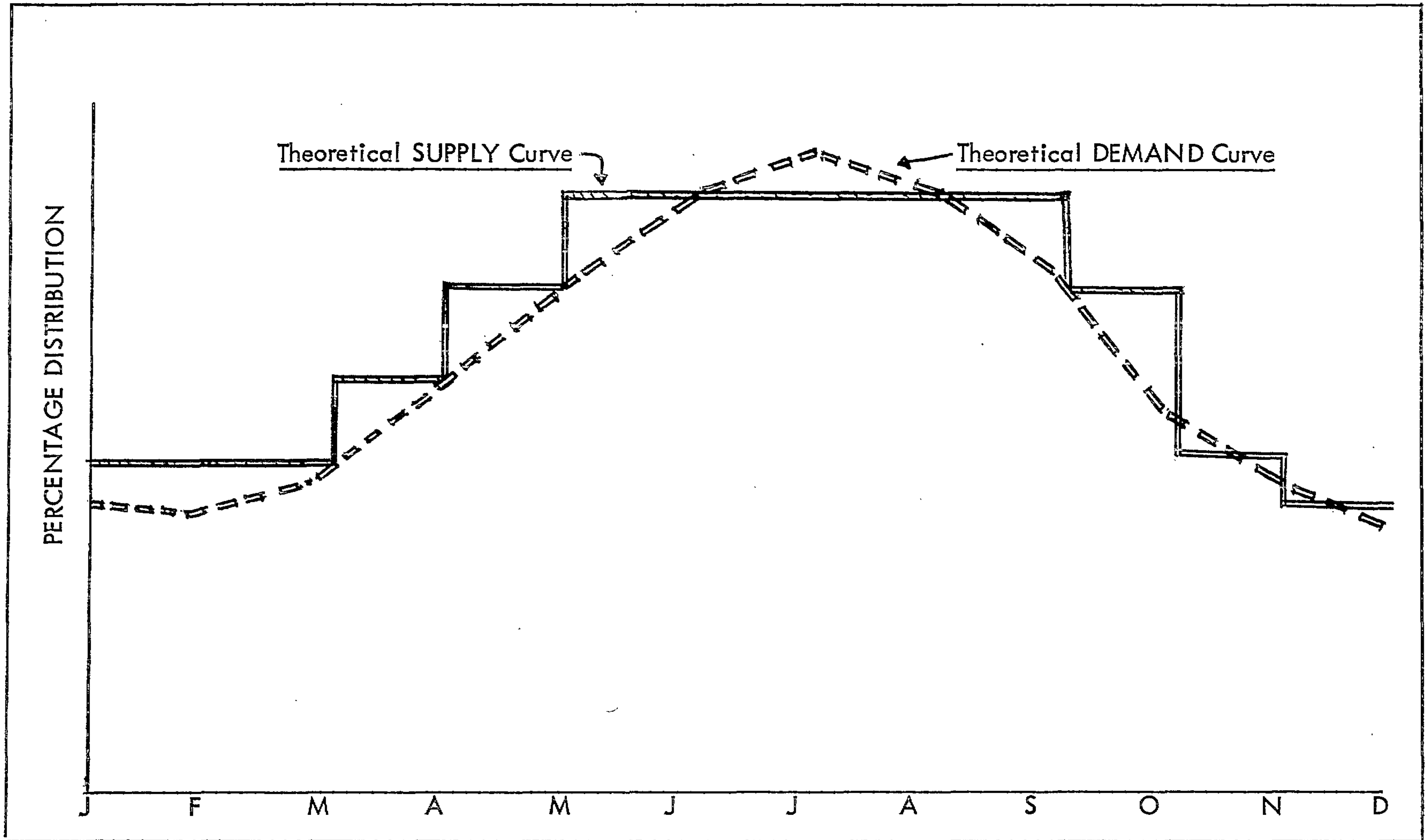
	HOTELS AND MOTELS		
	SUPPLY	DEMAND	OCCUPANCY RATE
1970	269,150	245,526	91%
1975	338,170	310,530	92%
1980	438,428	391,350	89%
	"OTHERS" (MAINLY CABINS & RENTED COTTAGES)		
	SUPPLY	DEMAND	OCCUPANCY RATE
1970	46,005	91,369	198% *
1975	58,327	118,480	203% *
1980	76,352	152,613	200% *
	TOTALS		
	SUPPLY	DEMAND	OCCUPANCY RATE
1970	315,155	336,896	106%
1975	396,497	429,011	108%
1980	514,780	543,961	106%

SOURCE: Projected by Travel Industry Branch, Office of Tourism.

* Note that the unrealistically high occupancy rates produced for "Others" are caused by problems of inconsistency in definitions and classifications used in data available. The projections should not be considered in detail but are felt to be useful in general, i.e. indicative of the general surplus of demand over supply in July, and the special shortage of accommodation other than traditional "hotels and motels".

CHART F7

THEORETICAL INTERPLAY OF SUPPLY AND DEMAND FOR ACCOMMODATION FACILITIES IN CANADA



SOURCE: Travel Industry Branch, Office of Tourism.

It should be re-emphasized here that in order to give specific guidance to provincial accommodation planning more localized forecasts are urgently needed to take into consideration such important factors as the marked shift in demand during the last 2 or 3 years towards outdoor-type accommodation (i.e. trailer parks and campgrounds — the reasons for which might lie in the price structures of hotels and motels), the levels of tourist satisfaction or dissatisfaction with accommodation, the effect of family size, party size, age and income distribution, etc. on travel patterns. The Travel Industry Branch places a high priority on the undertaking of such studies, either by the federal and provincial authorities or the private sector.

(e) One of the conclusions from the study of supply and demand is that the Canadian plant for most of the year appears to be adequately servicing the business-oriented traveller whose consistent patronage and high average expenditure has contributed much to the profitability of the accommodation sector, and, to some extent, the upper age-and-income group who want comfort and convenience and can and will pay for it.

(f) This development, however, has left and will continue to leave a large sector of the travel market unsatisfactorily serviced unless more construction takes place of establishments with facilities catering to the distinct recreation-oriented groups who will make up an increasing proportion of the travel market (see Chart F2) and who have been heretofore too much ignored. Because of the large number of smaller, widely-dispersed business operations in the accommodation sector there seems to be a considerable lag in operators re-thinking and acting to remodel their facilities to better attract and cater to changing market demand.

(g) Table F6 compares the supply and demand, and occupancy rates of hotel and motel accommodation with those of "Others" (i.e. non-campground establishments not included in the "hotels and motels" group). It serves to emphasize the changing nature of demand for accommodation other than the traditional types (hotels and motels); this trend could very well persist, barring radical changes in accommodation design, and in facilities offered or relative decreases in the prices of hotels and motels. A more penetrating examination of these trends would probably show even wider fluctuations from province to province.

TABLE F8

EXPONENTIAL PROJECTIONS OF TOTAL DEMAND FOR ACCOMMODATION BY CANADIANS & NON-RESIDENTS 1970, 1975, 1980.

	VACATION TRIPS Total Person Nights		PERSONAL TRIPS Total Person Nights		BUSINESS TRIPS Total Person Nights		TOTALS Total Person Nights	
	Hotel, Motel & Others	Camp Sites	Hotel, Motel & Others	Camp Sites	Hotel, Motel & Others	Camp Sites	Hotel, Motel & Others	Camp Sites
1970								
by Canadians	33,430,339	10,720,727	21,134,252	3,950,327	16,459,711	822,986	71,024,302	15,494,040
by Non-Residents	46,893,887	10,306,755	1,102,768	242,376	4,516,096	992,588	52,512,751	11,541,719
Total	80,324,226	21,027,482	22,237,020	4,192,703	20,975,807	1,815,574	123,537,053	27,035,759
1975								
by Canadians	42,201,945	13,511,808	30,465,509	5,694,487	23,727,045	1,186,353	96,394,499	20,392,648
by Non-Residents	54,362,866	11,948,354	1,278,409	280,980	5,235,395	1,150,681	60,876,670	13,380,015
Total	96,564,811	25,460,162	31,743,918	5,975,467	28,962,440	2,337,034	157,271,169	33,772,663
1980								
by Canadians	52,597,003	16,783,265	42,833,764	8,006,311	33,359,644	1,667,983	128,790,411	26,457,559
by Non-Residents	63,021,462	13,851,417	1,482,028	325,733	6,069,257	1,333,955	70,572,747	15,511,105
Total	115,618,465	30,634,682	44,315,792	8,332,044	39,428,901	3,001,938	199,363,158	41,968,664

SOURCE: Projected by the Travel Industry Branch, Office of Tourism.

TABLE F9

PROJECTED SUPPLY OF HOTELS, MOTELS AND OTHERS BY PROVINCE FOR 1970 AND BY TOTALS FOR 1975 AND 1980

PROVINCE	HOTELS		MOTELS		OTHERS		TOTAL	
	No. of Operations	No. of Units	No. of Operations	No. of Units	No. of Operations	No. of Units	No. of Operations	No. of Units
NFLD	121	1,854	61	1,032	125	1,508	307	4,394
PEI	11	405	77	1,150	47	658	135	2,213
NS	80	3,006	222	3,996	124	1,775	426	8,777
NB	55	2,783	205	4,064	131	1,175	391	8,022
QUE	1,768	48,665	1,486	31,990	553	13,736	3,807	94,391
ONT	1,227	44,559	2,001	36,810	2,823	21,619	6,051	102,988
MAN	265	8,146	202	3,589	204	1,414	671	13,149
SASK	400	9,728	207	3,726	60	818	667	14,272
ALTA	456	16,467	407	8,277	27	789	890	25,533
BC *	538	23,063	993	15,840	371	2,513	1,902	41,416
CANADA	4,921	158,676	5,861	110,474	4,465	46,005	15,247	315,155
TOTALS PROJECTED FOR:								
- 1975	4,963	163,892	8,027	174,278	5,411	58,327	18,401	396,497
- 1980	5,031	168,449	10,995	269,979	6,702	76,352	22,728	514,780

* Includes the Yukon and Northwest Territories.

SOURCE: Projections by Travel Industry Branch, Office of Tourism.

Section 3. Foreign Governmental Assistance Programs

In order to assess Canada's performance in the field of governmental assistance to the travel/tourism industry, and to assist in evaluating the relative merits of different possible forms of assistance, it was necessary to consider the programs which have been operating in various foreign countries. Governments were found to be employing a wide variety of forms of assistance: direct loans, loan guarantees, grants, interest subsidies, fiscal incentives, and regional equity programs. In federal states, combinations of these programs were sometimes partly or wholly duplicated at regional government levels.

Direct loans, with or without interest subsidies, seem to be the most popular and widespread form of assistance. This approach comes with two additional variations: loans in some countries are administered by agencies set up specifically to deal with the accommodation sector, while in other countries (including Canada), they are administered as part of a program of aid to all industries. While direct loans usually form the hub of the assistance programs, these loans are often found in tandem with subsidiary programs. Canada, for example, in addition to direct loans (at both the central and provincial levels) has programs of loan guarantees and direct subsidies in designated areas.

There is a danger as well as an innate difficulty in comparing the total impact of governmental assistance activities between countries. It is difficult enough to arrive at a meaningful comparison of a program of grants and loans with the accent on the former, with one of grants and loans with the accent on the latter, but the problem compounds itself when several varieties of fiscal incentives, guarantees, and direct governmental participation are introduced. This problem would exist even if all other things were equal. But all other things are not equal; in fact, it is in areas other than the form of assistance programs that the truly meaningful differences lie. And it is these other areas which should, in large part, determine the proper degree of governmental action. For example, Spain, whose assistance program is sometimes regarded as exemplary, and has sometimes been held up as a model for Canada, has many economic characteristics which differ from Canada's:

(a) Spain is essentially an under-developed country relative to Canada (Spain's per capita income in 1968 was U.S. $663 versus U.S. $2247 for Canada);

(b) Spain has experienced a faster rise in travel demand than Canada's respectable rate, principally because it is adjacent to the European Economic Community whose per capita income has been very rapidly rising;

(c) Spain has considerably lower prices relative to most of its neighbours while Canada is a relatively high-price country;

(d) When the surge of travel demand occurred, Spain was equipped with a very deficient tourism infra- and super-structure. Judging from the relatively low average occupancy rate in Canada, it would not appear that Canada is quantitatively deficient on the whole;

(e) Canada has a more developed capital market than Spain, which makes it much more probably for the accommodation sector to be able to obtain funding without government intervention;

(f) Most important of all, for Spain, the generation of foreign exchange to finance development is one of the highest and most difficult to attain of economic objectives. Spain has few commodities for which she can easily find foreign markets. For many such countries, tourism is one of the few and sometimes the only serious option open for a substantial generation of foreign currency. Canada has many options in this regard and has been so successful in recent years that the attainment of a favourable balance of payments has come to be the least troublesome of its economic objectives.

These differences between countries make for different travel/tourism industry problems, different government objectives, and, consequently, different assistance programs. Upon examination, those countries which most closely resemble Canada in other respects have quite similar governmental assistance programs.

The following is primarily concerned with the experience of relatively advanced, mixed-economy countries with well-developed private capital markets in applying governmental policies designed to assist the accommodation sector through loans and guarantees of loans, subsidies and interest grants, and tax exemptions or concessions. Though the treatment of each country may have gaps in it due to a paucity of readily-available information on that country, it should provide a sufficient base on which to make inter-country comparisons and in order to spotlight those countries for which further investigation would be useful.

The bulk of the information compiled is found in the OECD, July, 1970 Report, and in various 1970 IUOTO Technical Bulletins.

Australia

A recent amendment to the Tourist Act authorizes the Tourist Development Authority to give direct loans to owners of hotels for effecting improvements. The authority may borrow up to $200,000 per annum and relend it at near-cost. Hotel extension loans are guaranteed to a total of $500,000.

Austria

Since 1959, 80% of the receipts from hotelling are exempt from turnover tax. Austria has dealt with complaints of high interest rates by granting interest subsidies which effectively reduce the accommodation sector's interest. In 1967, interest subsidies of $403,850 were granted permitting $22.6 m. of loans to be made at reduced rates; in 1968, $608,000 was granted permitting $30.9 m. of loans, and in 1969, susidies totalled $790,000. The interest rate payable by borrowers was reduced from 5 to 3 percent. In 1969, a Development and Renovation Fund was established to finance investments in various sectors, including tourism. The Fund grants loans for a maximum period of 17 years at 7.5% interest. In addition, Austria has received certain sums from the European Recovery Program at 5% interest.

Belgium

In 1959, two new Acts designed to promote new investments and which are applicable to the accommodation sector were passed. By 1968, \$9.4 m. of loans had been granted to the hotel industry, and in 1969, \$7.8 m. was obtained by the tourism sector. The 1959 Acts also permit subsidies of up to \$20,052 (25% of building investment or 7½% of investment in equipment) to be granted. The Acts also permit a 5-year exemption from the trading tax and the supplementary income tax, and interest subsidies to a maximum rate of 2 to 3 percent.

France

The "Caisse Centrale de Crédit Hôtelier, Commercial et Industriel" is the official instrument for granting loans from the Economic and Social Development Fund (F.D.E.S.). The Caisse will grant loans of up to 50% of costs for modernisation projects at an interest rate of 6%, and will grant loans up to 60% of costs for new construction or renovation programs, whose size might lead them to be considered as equivalent to new construction, at an interest rate of 3.5%. In addition to these loans, France has several other programs: grants in aid can reduce the 6% interest rate to 3%; collective entities or non-profit associations may be granted a 25% subsidy for the acquisition and equipping of holiday centres. It should also be noted that marketing of tourism is included in the VIth National Development Plan (1971 - 1975).

Germany

Since January 1,1969, loans to the hotel sector are no longer taken from the Federal Budget — investment grants have been given for investments in the building, extension and modernisation of hotels and other tourist accommodations. Grants may cover up to 15% of investment costs and up to 10% for modernisation. Until 1969, development was encouraged through the use of credits only. Loans granted out of the European Recovery Fund were investment loans at 6% for the establishment of small-and medium-size enterprises in new residential areas and loans at 4% for hotel and catering establishments in Berlin. Loan guarantees are also extended by the Credit Guarantee Associations of the hotel and catering industry and by the lender.

Ireland

The Irish Government will provide a loan guarantee for up to 15 years. In addition, it provides capital grants, allows an annual depreciation allowance of 10% on any capital expenditure incurred after January 1, 1960 by owners of hotels, motels, and holiday camps, and may also give an initial rebate of 20% on new equipment, and a rebate on the total cost of soft furnishings. Taxation by local authorities on recent constructions or on extensions is reduced by two-thirds for a period of seven years. A new four-year program has been in effect since 1969, the Third Program for Economic and Social Development. The program aims at an annual rate of growth in tourist receipts of 6 percent. It is estimated that such receipts should exceed £85 million by 1972.

Israel

Israel has a tourist industry development corporation which will grant loans for 15 to 20 years. Their loan program is very closely tied in to their regional development program, borrowers receiving increasingly favourable loans as to size and interest rates as they elect to invest in decreasingly favourable regions: Region A calls for loans of up to 67% of total cost at an interest rate of 6.5%, Region B, 55% of total cost at 8% interest, and Region C, 50% of total cost at 9%. This scheme was put into effect in 1970. In 1968, 50% of total investments in the hotel industry was granted by the Israeli Ministry of Tourism.

Italy

An Act of 1968 introduced a system of loans and incentives to the accommodation sector which encourages accommodation investment in certain regions, particularly the South. Loans for periods of 12 to 15 years to encourage construction and modernisation are to be made available at an interest rate of 3%. Subsidies up to 15% of approved expenditure for construction and modernisation fees as opposed to the normal 7% have also been provided for. The program is administered by the Italian National Tourist Office and the Central Tourism Board. In 1968, $21.4 m. were approved under the "Fund for the South" Program.

Japan

Previous to Expo 70, Japan did not have a very involved accommodation assistance program. The Minister of Transport could, when he deemed it necessary, assist the operators to acquire financial assistance. Loans usually amounted to 20-25% of the total cost for a period of 10-15 years at an interest rate of 8.2%. In addition to this, the depreciation period for assets of classified hotels is shorter than that laid down by local tax regulations, and a new regulation exempts any income obtained by travel agencies from organized travel for foreign tourists from axation.

Netherlands

In 1969 a regulation came into force for hotel financing, making it possible to participate in share capital under State guarantee. This participation only applies to large hotel projects of 200 rooms or more in towns or regions where there is a shortage of hotel accommodation. The hotel enterprise concerned must provide as share capital a minimum of 25% of the capital sum required. Regulations for financing hotels by credits were replaced by the Tourist Accommodation Credit Order in 1970. The granting of credits was limited to hotels and bungalows but now is extended to other tourist attractions. The maximum credit term is 25 years. The first redemption of the loan may not take place before the sixth year. The rate of interest is the same as that applicable to corresponding commercial credits. The State guarantee is 75% of the loan, and 25% of the risk is borne by the National Investment Bank. The Tourist Accommodation Credit Order also published new guidelines for the subsidising of tourist accommodation in 1970. The guidelines apply to both public and private tourist projects. A condition of the subsidies is that the tourist enterprise concerned be necessary to the desired development of tourism in a relevant region.

Northern Ireland

Since 1963 the Ulster Government has provided outright cash grants of 25% of capital cost of expenditure for improvement of hotels, motels, etc. The scheme is regarded as highly successful and popular by government officials.

Norway

In 1967, $5.3 m. was loaned under the Regional Development Plan and the National Hotel Fund at interest rates of 4.5% to 5%. In 1968, the amount decreased to $3.5 m.

Portugal

The Government of Portugal has instituted a system of loans, subsidies, and tax incentives administered by the Tourism Fund and the National Loans Fund. A law passed in September 1969 promulgates a new method of working for the Official Tourism Fund with the aim of widening the range of opportunities for loans and guarantees to the hotel industry. A law passed in November 1969 widens the loan facilities granted to other types of accommodation classified as being of use to the tourist industry. Establishments deemed to be of value are exempt for ten years from property and industrial tax, as well as from certain other local taxes and levies for 15 years. Thereafter, they are entitled to a reduction of 50% in the various contributions and taxes.

Spain

In Spain there are no subsidies or fiscal incentives granted to the travel industry. The Government operates through the agency of the Hotel Credit Fund, which operates as a revolving fund. The Fund grants loans of up to 60% of total costs and a repayment period of up to 15 years for hotels, and 40% of total costs with a repayment period of up to 7 years for restaurants and cafeterias. Furniture and equipment merit loans for a period of 5 years. All loans are issued at an interest rate of 5.25%. In 1965, $21 million of loans were granted; in 1967, $21,987,000; and in 1968, $34,128,000. In addition to this, various tax benefits are available.

Sweden

Government loans may be granted for: the building, extension and modernisation of tourist accommodation. Priority is given to hotels in Northern Sweden and may amount to two-thirds of the total cost. The normal period of amortisation is 10 years; in special cases, it may be extended to 20 years. Since 1960, loans for the modernisation and extension of hotels are guaranteed to a maximum amount of $850,000 per annum. Since July 1962, this guarantee was extended to include the building of hotels.

Switzerland

The "Société Suisse pour le Crédit Hôtelier" guaranteed loans totalling $1.4 m. and granted $1.3 m. in 1967; in 1968, the company guaranteed $2.2 m. and granted $1.4 m.; and in 1969 guaranteed $2.6 m. and granted $2.4 m. These loans and guarantees form part of a total of $25 million from these facilities. In 1969 assistance granted by the "Crédit Hôtelier Suisse" represented 23.3% of total investment (24% in 1968). The company is mainly concerned with the modernisation of the travel industry, leaving new construction to the private sector. As most agencies of this nature, it is a lender of "last resort" which will lend only to viable schemes. The amounts of the loans do not normally exceed returns expected after the modernisation and are generally for periods of 10-15 years at rather low interest rates: 4.09% in 1967, 3.38% in 1968. The company also guarantees loans and, in 1968, intimated preference would be given to guarantees rather than direct credit.

United Kingdom

Loan assistance is provided for by the Development of Tourism Act and may be granted at the discretion of the statutory Tourist Boards. Loans may cover up to 30% of eligible expenditure on new hotels and up to 50% of the cost of extensions and improvements. Interest is charged at the prevailing government lending rate. Subsidies of up to 20% (25% in development areas) will be granted to eligible projects up to a maximum of $2,400 per bedroom ($3,000 in development areas).

United States

Apart from the assistance programs of various individual states, (which tend to be directed to specific area development projects and are partly financed by the Small Business Administration, so that conditions and terms are somewhat similar to SBA loans), the U.S. Federal Government is financing the accommodation sector directly or indirectly through the Small Business Administration and other legislative programs. Generally speaking, these Government-sponsored loans are long-term and have low-interest rates (5.5%).

American experience suggests that the major cause of turndowns by conventional lenders is the lack of good management on the part of accommodation sector operators and a suspicion of small seasonal operations on the part of the lenders.

The Small Business Administration is a permanent, independent government agency created by Congress to help small business. SBA offers to small business financial assistance including lease guarantees, management assistance, aid in obtaining government contracts, counselling services, and more than 800 publications covering successful practices in every small business field. Any small businessman with a financial problem may come to SBA for advice and assistance. Agency specialists will review his problem and suggest possible courses of action.

If a businessman needs money and cannot borrow it on reasonable terms, SBA often can help. The Agency will consider either participating in, or guaranteeing up to 90 percent of a bank loan. If banks cannot provide any funds, the SBA will consider lending the entire amount as a direct government loan. Two-thirds of SBA's loans are now made in participation with banks.

Through the Lease Guarantee Plan, the SBA aids small businessmen who are often excluded from leasing good locations because they lack the top credit ratings required by landlords.

Other programs are as follows:

Program Title	Legislation	Nature and Purpose
Financial Assistance to Small towns and Rural Groups	Consolidated Farms Home Administration Act of 1961; PL 87-128 as amended by PL 89-240; 79 Stat 931; 75 Stat 307; 7 USC 1013A; 1921-1929; 1941-46, 1961-67, 1981-90 (Supp. IV) Food and Agric. Act 1962; PL 87-703, 76 Stat 605; 7 USC 608c et al.	Makes loans and grants to establish facilities and shift land uses to grazing, wildlife and recreation areas and forests.
Loans for Recreation Purposes	Food and Agric. Act of 1962; PL87-703; 86 Stat 605; 7 USC 608 et al .... (see above)	Provides loans for recreation enterprises (such as camping grounds, lodges, rooms for visitors, picnic grounds) to farmers who wish to supplement their farm income.
Resource Conservation and Development Projects	Food and Agriculture Act of 1962 PL87-703 Stat 607; 7 USC 1010, 1011 (Supp. V) 1959-63	Provides financial and technical assistance to develop alternate uses for land and water resources in open spaces, and for developing outdoor recreation enterprises.
Rural Renewal Loans	Same as above. Plus Bankhead-Jones Farm Tenant Act; PL 75-210; 50 Stat 525; USC 1010-1012 (1940) PL 89-796	Provides loans in low-income areas to help stimulate the Economy; includes loans to develop recreation facilities.
Grants and Loans for Public Works and Development Facilities	Public Works and Economic Development Act of 1965; PL 89-136 76 Stat 552	Provides grants in redevelopment areas for public tourism facilities.

Promotion of International Travel	International Travel Act of 1961, 75 Stat 129	Develops, plans and carries out programs to stimulate and encourage travel to the U.S. and to improve the reception, service and hospitality given to foreign visitors.
Development of Recreation Facilities and Equipment	PL 81-874	Provides for the development of recreation facilities by local school districts.
Urban Renewal Projects	Housing Act of 1949; PL 81-171; 88 Stat 414 as amended; 42 USC 1450-65 (1964) as amended; 72 USC 1451 - 66 (Supp.1, 1965) as amended; 42 USC 1453-63	Provides urban area grants that can be used for the preservation of historic structures, acquisition of land for recreation-associated uses and the development of public public facilities including recreation and parks.
Outdoor Recreation Financial Assistance	Land and Water Conservation Fund Act of 1965; PL 88-578; 78 Stat 879; 16USC460D, 460L-4 to 460L-11 (1964); 23 USC 120 note	Provides financial assistance to States for planning, acquiring and developing outdoor recreation areas and facilities.
Small Business Administration	15USC Small Business Act as amended, also Equal Opportunity Act of 1964 as amended Secs. 401, 402, 406 and 407.	Makes loans to small business firms operated for a profit including recreational or amusement facilities; provides technical assistance and lease guarantees.

PART G - TRAVEL/TOURISM IN THE CANADIAN ECONOMY

Section 1. Introduction - The Factors Affecting Travel/Tourism Demand

Dissertations on travel/tourism refer to three great historical phases: The Aristocratic when travel was the preserve of a plutocratic minority; the Bourgeois when travel was taken up by the new politically and economically enfranchised classes; and, more recently, the Mass, Popular, or Social travel of middle and working classes. In this study travel/tourism means the latter phenomenon which differs fundamentally from the first two, in that it is coming to be less and less regarded as a strict luxury.

There are several socio-economic factors in Canada, changes in which are creating an increase in demand for travel/tourism activity.

(a) The increase in the population of Canada and the United States has a particularly strong positive effect on travel demand. Not only is population increasing, but the age structure is shifting so that there will be larger proportionate concentrations in the 15-to-40-years age bracket in the coming decade.

(b) The correlation between the development of travel habits and urbanization is manifest. Canada has been undergoing and continues to undergo the most rapid urbanization of any western country.

(c) There has been an increase in leisure time consequent upon the reduction of the work-day, work-week, work-year, and even work-life (the section on seasonality discusses this at greater length). A lack of time is one of the most effective constraints to travel.

(d) A second constraint which is becoming less of an impediment is the financial. As personal income continues to rise and as the basic necessities are more easily met, there is a growing discretionary surplus which can be devoted to other spending. Travel/tourism has been demonstrated to be income-elastic. Not only the absolute rise in income, but also the trend to a more equitable distribution of income is having a positive effect upon travel/tourism demand.

(e) As plenty increases, needs evolve, and activities such as travel come to be regarded as necessities. The same phenomenon applies to complementary goods such as automobiles (an increase in car ownership produces an increase in travel).

(f) Several technical changes relating to transportation are having a great positive effect upon travel. Better roads, and faster, safer, more comfortable and capacious aircraft are revolutionizing travel/tourism. Furthermore, an increase in the quality of transportation methods has been accompanied by a relative decline in the price of this important component of travel/tourism. The effect of the coming Age of Jumbo-jets has hardly been dreamt of in some quarters.

(g) Very important, also, are the psycho-sociological motives which drive people to travel/tourism activity: the veneration of nature, modern role-playing, demonstration effects, education, the modern attitude towards one's children, curiosity, the push of advertising, a need for change and escapism are all factors which drive modern man to travel.

All these factors suggest that a "Golden Age of Travel/Tourism" is dawning. In the following sections, an attempt is made to evaluate the effects of this industry upon Canada.

Section 2. The Seasonal Demand for Travel/Tourism

Seasonality is and threatens to remain one of the Canadian travel industry's most intractable problems. The pyramiding of tourist demand during the summer season causes an under-utilization of travel facilities during other seasons. The travel facility operator is under considerable temptation to try to meet the high-season demand by expanding, a move which, in many cases, serves only to aggravate the problem. Under-utilization affects profitability which in turn makes this industry relatively less attractive to potential investors and creditors. Nor does seasonality stop at its negative effect upon the travel plant; since a considerable segment of the industry cannot offer year-round job security to its personnel, this tends to downgrade the overall calibre of the travel industry labour force.

Despite this gloomy prognosis, there is great potential for levelling out travel activity over time. To illustrate this, it is useful to disaggregate travel activities into several components. A widely-used practice is to distinguish "business", "vacation" and "other personal" travel. Though no reliable figures yet exist of the expenditures for each of these categories, it is estimated that business travel accounts for slightly less than one-third of total expenditures, vacation travel for one-third, and other personal travel for slightly above one-third. Business travel is virtually non-seasonal, except when it is combined with pleasure; "other personal" is fairly seasonal; and vacation travel is highly seasonal. The 1966 Ontario resident survey reported that 60% of Ontario resident vacation travel expenditures occurred during the months of July, August and September. Other sources estimate that as high as 75% of the proportion of the Canadian labour force which takes a vacation, takes it during those months. This situation is in large part due to the climate of our country and to traditional school and business vacation patterns. Though climate is immutable, it is possible to turn it to advantage by exploiting the growing interest in winter sports and activities, and to a greater degree the spring and autumn seasons*.

With regard to traditional vacation patterns, several factors are afoot which should have a beneficial impact upon seasonality. The educational system is re-examining the present "school year", and in a growing number of cases opting for the semester system. The work-life of the labour force is experiencing even more

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* It may be possible to create new hall-mark events and hold them in the off-seasons, or to reschedule existing events which are subject to excess demand, into shoulder seasons. Certain categories of travel expenditure might be particularly responsive to off-season incentives.

radical changes. The work-week, work-year and work-life is shrinking via shorter work-weeks, longer holidays and earlier retirement. Some unions are experimenting with a longer work-day coupled with three-day week-ends. The number of statutory holidays is increasing by one or two. In some cases, additional holiday time is transforming the traditional Christmas week and New Year's Day holidays into a second vacation.

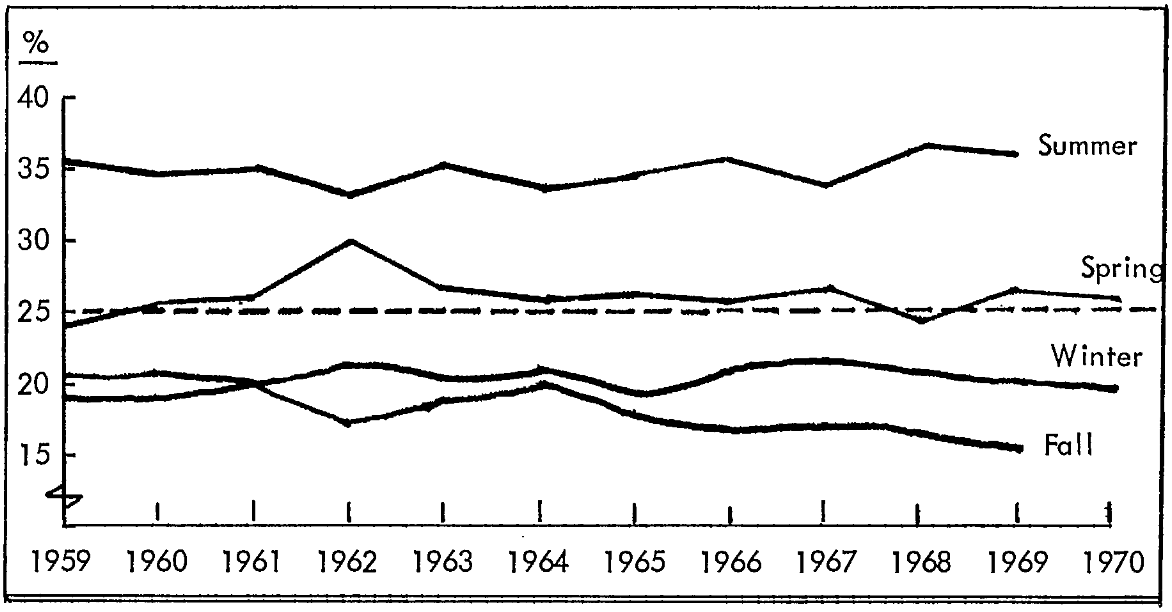
As demand pressure on inadequate facilities mounts during the high season, many will revise their travel plans. Insofar as the revision is to a lower-demand season or the "shoulder" months, this is a positive factor. There is evidence that this is occurring in many resort areas. The revision can also be spatial, so that foreign and domestic travellers decide to go to a lower-demand region, which is also a positive factor. On the other hand, foreign travellers may be discouraged from coming to Canada, and Canadian travellers may be induced to go abroad, which is a negative factor. Thus, the Canadian travel industry must tread a narrow path, not supplying the full, high-season demand, which would be uneconomic, and not frustrating so much demand as to lose net economic benefits. The relative price decrease of transportation as a travel expenditure, as well as its improvement with regard to speed, comfort, capacity and safety, complicates the above picture by making large spatial displacements easier.

Many travel experts are optimistic about the possibilities of levelling out seasonal travel demand. There is evidence that winter sports have done a great deal towards achieving this end. The following graphs show that, since 1959, there has been no clear change in the seasonal trend of Canada's travel receipts from abroad, nor her travel expenditures abroad. Note that a perfectly non-seasonal pattern would coincide with the 25% line. The "seasonality" of any given quarter is indicated by its distance from this line.

More attention is now being given to the search for an accommodation type which can be operated economically in light of the present seasonal demand for accommodation and the seasonal supply of those students who rely on travel industry jobs for their summer employment. This involves specialized design.

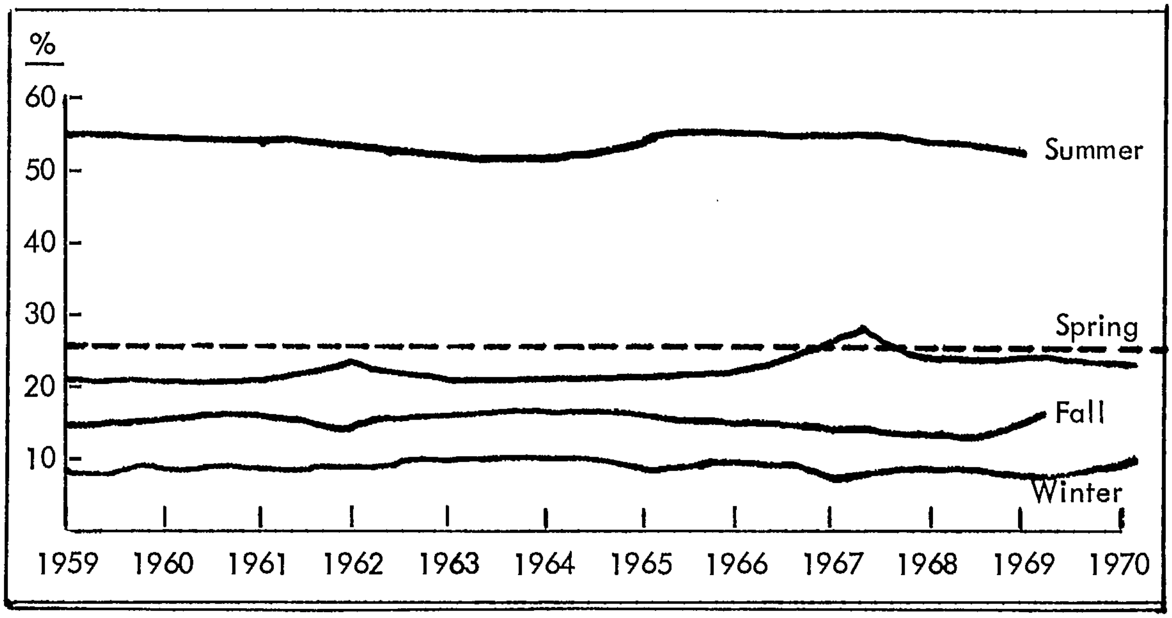
GRAPH G1

PERCENTAGE DISTRIBUTION OF CANADIAN TRAVEL EXPENDITURES ABROAD BY SEASON (1959-1970)



GRAPH G2

PERCENTAGE DISTRIBUTION OF CANADIAN TRAVEL RECEIPTS FROM ABROAD BY SEASON (1959-1970)



SOURCE: Statistics Canada No.67-001.

Section 3. Travel/Tourism as a Generator of Income

During 1970, approximately $4.2 billion was spend on travel/tourism in Canada, by domestic and foreign travellers*. This is the sum spent by travellers on a wide variety of goods and services which range from pure travel/tourism services such as passenger transportation and room accommodation, to goods and services which are not primarily traveller-oriented, such as "down-town shopping". This total amount represents approximately 5% of Canada's Gross National Product in 1970.

In assessing the ultimate result of any increase in expenditures on domestically produced goods and services, it is necessary to introduce the concept of the multiplier. When an increase in expenditures occurs in an economy, the level of income immediately increases as the producer of the goods or services upon which the new expenditures were made receives the income. However, the impact does not end here. The recipient will, in turn, spend some part of this additional income upon home-produced goods and services, and this will in turn become the income of the producer of these goods and services. By this process, the ultimate increase in income will exceed the initial increase and the overall level of income will rise. The ultimate size of the increase in income depends upon the proportion of the increase of each round which leaks out of the spending stream. Examples of leakages would be taxes and imports.

This process is of interest to us because of the different impact on income, of spending in different industries and regions. Not enough is presently known of the income-generating ability of travel/tourism spending relative to spending in other industries, though Prof. K. Levitt of McGill University ranks "Hotels & Restaurants" fifth of 33 industries in her study of the Atlantic Provinces (see next section). Kates, Peat, Marwick & Co., in a 1969 study**, estimated that the Canadian multiplier relating to travel expenditures was 2.4. There are substantial regional differences due to variations in inter-regional import contents, with less-industrialized

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* This figure includes $1.2 billion of receipts from the Balance of Payments Travel Account, and the mean of domestic spending estimates which range from $2 billion to $4 billion. The Canadian Travel Survey will yield accurate data on the latter.

** The Economic Significance of Travel in Canada, Summary Report for the Canadian Tourist Association; Kates, Peat, Marwick & Co.; May, 1969.

regions such as the Atlantic Provinces having the lowest multipliers. This last proposition may be illustrated by means of an example. If a traveller has a repair done to his car in, say, Nova Scotia, part of his bill, such as labour and return to operator's investment, remains as income which Nova Scotians can, in turn, re-spend. But part of the bill goes for automobile parts which are manufactured outside Nova Scotia, say in Ontario, and perhaps a portion of the bill goes to pay interest on a loan which the operator has incurred with a bank whose ownership is also in Ontario. Thus, part of the income stays in the Nova Scotia income stream, while another part goes to the Ontario stream. On the other hand, had the same expenditure been incurred in Ontario, Nova Scotia would have enjoyed virtually no income benefits from the transaction. The principle emerges that the higher the proportion of traveller demand that is met by imported goods and services, the lower the multiplier effect of the re-spending of residents' income. We shall later see that income transactions from one region to another have important regional equity ramifications due to this "spill-over" effect.

Several qualifications should be kept in mind when considering the multiplier effect. The size of the multiplier is only one consideration in deciding which industries should be favoured. For example, a low-multiplier, rapid-growth industry may be preferred to a high-multiplier, slow-growth industry. Most agricultural industries have high multipliers because these activities require relatively few imports, but they have the disadvantage of providing low standards of living, and being characterized by fluctuating income due to changing market and weather conditions. Much is made of the multiplier effect in studies of Canadian Travel/Tourism. But as is the case with most other industries, the principal benefits or shortcomings of tourism do not solely lie in the relative size of its impact upon income.

Section 4. Travel/Tourism as a Generator of Employment

The employment potential of the travel/tourism industry presents a rather mixed picture. Some of the employment in accommodation is very low-paid and sometimes seasonal, with working hours which are often long and irregular. These unattractive conditions tend to be less acceptable to skilled than to unskilled labour and furthermore act as a disincentive to further training.

Yet, these very characteristics have a strong positive side to them. Low-paid travel/tourism jobs provide a labour market for unskilled labour. Much of the seasonal and part-time opportunities are filled by students and housewives. This coincides well with a seasonal supply of unskilled students*, and in the case of housewives, serves to supplement family income.

Not enough rigorous factual information is available on the employment characteristics of travel/tourism in Canada. It is known that tourism is relatively labour-intensive and compares favourably with other economic activities as a generator of employment (The U.S. Economic Development Administration uses the rule of thumb that one direct full-time equivalent job is created for each $10,000 spent on travel/tourism; there is evidence that hotels and restaurants do even better). It is generally recognized that the gestation period of most tourism investment is relatively short and thus of some interest for an employment-creating policy. It is also known that for some Canadian regions the alternatives to tourism are exodus to already congested urban areas where many will become welfare recipients and/or unemployment, for many regions lack a resource base, an infrastructure, and skilled labour, and are too distant from consumer markets to make other economic activities feasible. But not enough is known about the intersectoral relationships of the many components of travel/tourism to presently permit making many meaningful quantitative comparisons between this industry and others.

Professor K. Levitt's study goes some way in filling the quantitative data gap. Her Input-Output tables and study of the Atlantic Provinces** yield measures of the employment potential of the travel/tourism industry relative to other economic activities prevalent in the region. Though intended to apply only to the Atlantic Provinces, the study points out relative characteristics which are innate to the industry.

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* This is not to say that students have no skills, but rather that relatively few of them get to apply their skills to their summer employment.

** "A Macro Economic Analysis of the Structure of the Economy of the Atlantic Provinces - 1960" - Kari Levitt, presented to the Canadian Economic Association; 1969.

It does not treat travel/tourism as such, but of the 33 industries examined, "Hotels & Restaurants" has a very high travel/tourism content, and usually absorbs one-third to one-half of the traveller's total spending. Considering only "Hotels & Restaurants" has the advantage of focusing on accommodation, the object of the present study.

Prof. Levitt has found that in Nova Scotia and New Brunswick the "Hotels & Restaurants" category has a high direct-employment creation capability. In both provinces, one job was directly created by each $6,329 of final sales, while each $6,780 created one induced job through backward linkage.

The following tables illustrate travel/tourism's employment creation capacity. Though attention is concentrated on "Hotels & Restaurants", "Transportation" is also included because of its high travel/tourism content.

TABLE G3

EMPLOYMENT PER ONE MILLION DOLLARS OF FINAL SALES

NOVA SCOTIA, 1960

INDUSTRY	DIRECT EMPLOYMENT	INDUCED EMPLOYMENT	TOTAL EMPLOYMENT
PRIMARY FISHING	221	132	353
PERSONAL SERVICES	211	129	340
COAL MINING	181	133	314
FORESTRY	167	98	265
HOTELS & RESTAURANTS	158	146	304
TRANSPORTATION	103	134	237

SOURCE: OP. CIT., pp. A42 - A43.

"Hotels & Restaurants" ranks fifth in direct-employment creation/final sales, and fourth (after "Fish processing", "Sawmills", and "Business services") for induced-employment creation/final sales. Only "Primary Fishing", "Personal Services" and "Coal Mining" created more total employment.

TABLE G4

EMPLOYMENT PER ONE MILLION DOLLARS OF FINAL SALES

NEW BRUNSWICK, 1960

INDUSTRY	DIRECT EMPLOYMENT	INDUCED EMPLOYMENT	TOTAL EMPLOYMENT
FORESTRY	222	106	328
PERSONAL SERVICES	206	123	329
NON-METALLIC MINERALS	173	110	283
HOTELS & RESTAURANTS	157	149	306
TRANSPORTATION	122	145	267

SOURCE: OP. CIT., pp. A44 - A45.

In New Brunswick the pattern is somewhat similar, "Hotels & Restaurants" ranking fourth in direct-employment creation/final sales, and third after "Sawmills" and "Business Services" in induced-employment creation/final sales. Only "Forestry" and "Personal Services" created more total employment.

In contrast to the high employment-creating capacity of the "Hotels & Restaurants" industry, is the low direct wage-bill share of each dollar of final sales. The following table shows the 33 industries in Prof. Levitt's study.

TABLE G5

WAGE-BILL PER DOLLAR OF FINAL SALES

NOVA SCOTIA, 1960

INDUSTRY	DIRECT WAGE-BILL	INDUCED WAGE-BILL	TOTAL WAGE-BILL
Agriculture	10¢	37¢	47¢
Forestry	46¢	28¢	74¢
Primary Fishing	17¢	39¢	56¢
Coal Mining	68¢	40¢	$1.08
Non-Metallic-Minerals	20¢	24¢	44¢
Meat Processing	19¢	39¢	58¢
Fish Processing	16¢	42¢	58¢
Bakeries	19¢	28¢	47¢
Beverages	17¢	31¢	48¢
Textiles & Clothing	25¢	23¢	48¢
Sawmills	24¢	50¢	74¢
Pulp & Paper Mills	25¢	43¢	68¢
Printing & Publishing	41¢	35¢	76¢
Iron & Steel	34¢	42¢	76¢
Metal Fabricating	30¢	40¢	70¢
Machinery & Equipment	41¢	42¢	83¢
Transportation Equipment	48¢	38¢	86¢
Electrical Equipment	45¢	25¢	70¢
Non-Metallic Mineral Products	23¢	36¢	59¢
Petroleum Refineries	4¢	8¢	12¢
Fertilizer & Chemicals	16¢	24¢	40¢
Miscellaneous Manufactures	40¢	35¢	75¢
Construction	35¢	40¢	75¢
Transportation	37¢	41¢	78¢
Communication	43¢	30¢	73¢
Electric Power	23¢	43¢	66¢
Wholesale & Retail	48¢	39¢	87¢
Automobile Operation	22¢	29¢	51¢
Finance, Insurance	31¢	28¢	59¢
Dwelling Services	-	-	-
Hotels & Restaurants	29¢	44¢	73¢
Personal Services	31¢	39¢	70¢
Business Services	21¢	49¢	70¢

SOURCE: OP. CIT., pp. A46 - A47.

While "Hotels & Restaurants", at 29¢, is among the industries with the lowest direct wage-bill, the grouping is, at 44¢, among the industries which induce the highest wage-bills through backward linkages. Nevertheless, "Hotels & Restaurants" employees remain relatively low-paid.

In recent years, there has been a proliferation of training activities dedicated to the travel/tourism industry in Canada*, principally at the "Community Colleges" level of education. This rapid increase in trained personnel should do much to change the nature of travel/tourism employment, and, indeed, the industry itself. To date there is evidence that some of the graduates have had difficulty finding positions. The industry will have to seriously consider the advantages to be derived from replacing lower-paid labour by this new breed of travel/tourism professional.

* With particular attention to the accommodation sector.

Section 5. The Contribution of Travel/Tourism to Regional Equity

History and nature have imposed upon Canada a number of regions which differ radically from each other in terms of economic development. The Canadian Confederation is predicated in large part on the notion that it is desirable, through a concerted effort, to eliminate this difference. To this end, the Federal Government seeks to promote development which will raise the level of income in the less-developed regions. In the section on Income, it was shown that the more-developed regions such as Southern Ontario benefit from "spill-over" effects from economic activity which takes place in regions such as the Atlantic Provinces, through exporting to these less-developed regions. Thus, by encouraging economic development in, say, Nova Scotia, both this province and Ontario would benefit, while if the same development were encouraged in Ontario, Nova Scotia would hardly benefit at all.

If the principle that it is beneficial for all regions to encourage economic development in the less-developed regions be accepted, should travel/tourism be regarded as a desirable option?

It is generally conceded that while travel/tourism can contribute significantly to economic development, it is unlikely to provide the primary base for a self-sustaining economy. The degree to which this industry can yield significant economic benefits to a regional economy will depend upon*:

a) the region's distance from a large metropolitan population;

b) the region's having a resource base which lends itself to the sort of diversion which will induce the traveller to lengthen his stay;

c) management and capital being available and willing to develop the resources efficiently;

d) development opportunities being characterized by a high value-added as a result of high inputs of local capital and/or labour;

e) the region's having the potential for providing a significant share of the goods and services purchased by travellers**;

f) the regions's potential for developing other export industries which would be stimulated and supplemented by travel/tourism activity.

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* Recreation as an Industry in Appalachia, R.R. Nathan Associates Inc. and Resource Planning Associates Inc., Washington, D.C.; 1966.

** Both (d) and (e) will tend to lower the import content and thus raise the regional multiplier effect of travel/tourism.

Travel/tourism's high employment-generating capacity, and its labour-intensiveness*, coupled with the ability of many of Canada's less-developed areas to satisfy the above criteria, should make travel/tourism an interesting option from a regional development point of view**.

Many studies have shown that travel/tourism is income-elastic, that is to say, when there is a certain percentage increase in disposable income, expenditures on travel/tourism increase by a percentage greater than the increase in income. Insofar as part of any increase is spent inter-regionally, this would suggest that this mechanism causes a net distribution of income from richer to poorer regions. The following table derived from a 1969 study on Canadian travel supports this contention:

TABLE G6

INTER-PROVINCIAL EXPENDITURES AND RECEIPTS FROM CANADIANS TRAVELLING IN CANADA ($ MILLIONS)

	RECEIPTS FROM THE REST OF CANADA	EXPENDITURES TO OTHER PARTS OF CANADA	BALANCE
ATLANTIC PROVINCES	$46 m.	$25 m.	+ $21 m.
QUEBEC	$109 m.	$88 m.	+ $21 m.
ONTARIO	$94 m.	$218 m.	- $124 m.
MANITOBA	$43 m.	$20 m.	+ $23 m.
SASKATCHEWAN	$34 m.	$32 m.	+ $2 m.
ALBERTA	$58 m.	$43 m.	+ $15 m.
BRITISH COLUMBIA	$79 m.	$37 m.	+ $42 m.

SOURCE: Economic Significance of Travel in Canada - Kates, Peat, Marwick & Co., 1969.

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* Travel/tourism has a relatively high labour/final output ratio.

** The Development Plan for Prince Edward Island assigns very high priority to travel/tourism.

With the exception of British Columbia which enjoys an enormous traveller-attracting advantage with its coastal marine climate and its Rocky Mountains, and Alberta which also contains part of the Rocky Mountains, there is some relationship between the degree of economic development and regional net flows of traveller expenditures. If the travel/tourism plant were to be improved in one of the less-developed regions relative to the other regions, we could thus expect three effects:

a) part of the traditional expenditures of residents in travelling to other parts of Canada and abroad would be diverted to their own region;

b) there would be a diversion of the expenditures of Canadians and foreigners from other regions to the less-developed region;

c) there would be a net creation of travel/tourism activity in the region by residents, by Canadians from other regions and by foreigners who might now be induced to come to Canada.

All three of these effects would increase the region's balance on travel/tourism account, and act to reduce regional inequity.

Section 6. Travel/Tourism and the Balance of Payments

Canada's receipts from international travel/tourism in 1970 totalled \$1,219 million, 5.8% of total exports of goods and services. Canada's expenditures on international travel/tourism in 1970 totalled \$1,454 million, 7.4% of total imports of goods and services. This means that Canada had a deficit of \$235 million on Travel Account (see Graph G7), while there was a surplus of \$1,406 million on trade in all goods and services on Current Account.

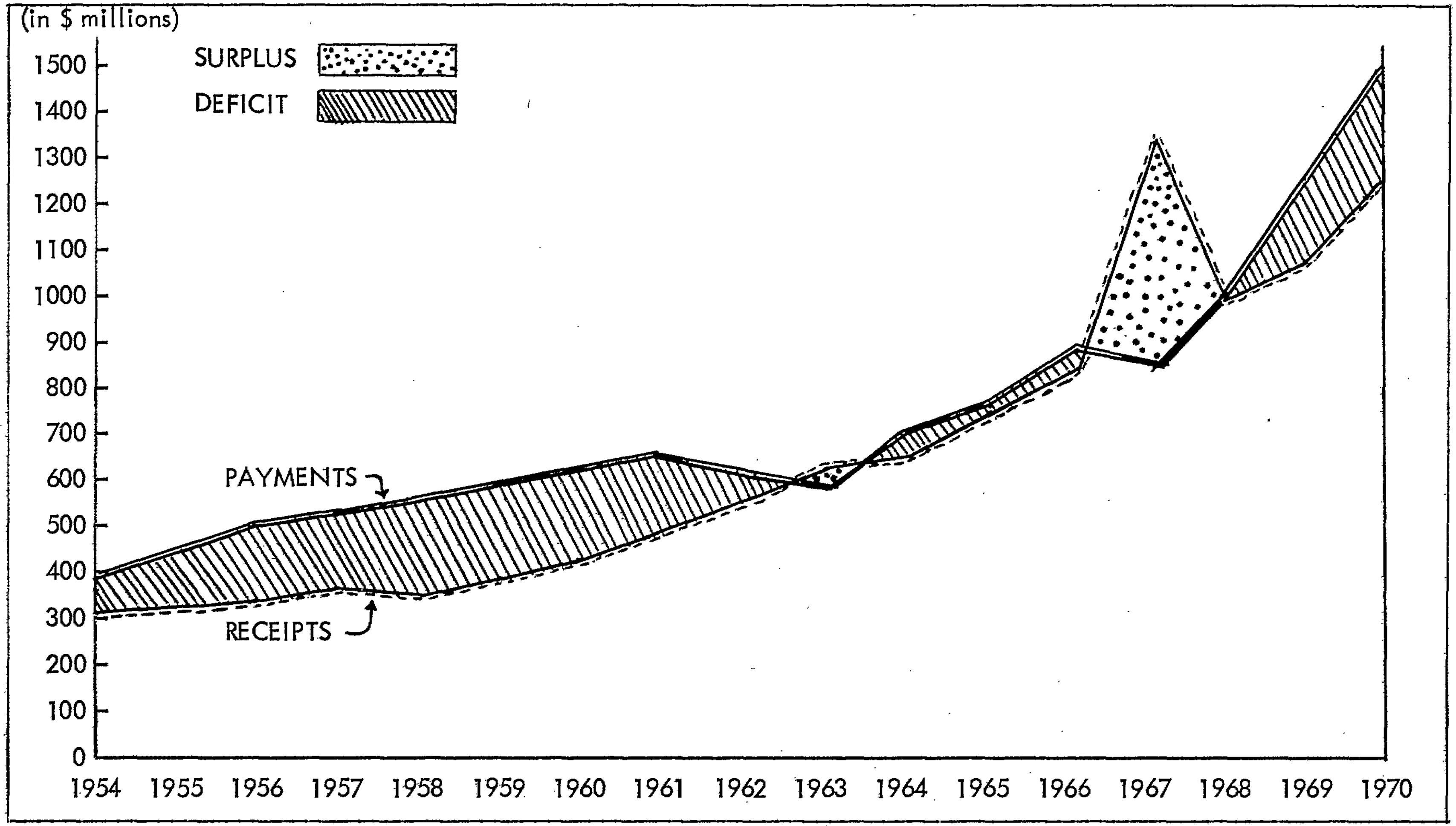
Many countries which have balance of payment difficulties have found travel/tourism to have great foreign-exchange-earning potential. In these countries, travel/tourism is often given high priority. This has not been the case in Canada because of our overall trade surplus in recent years. It is not correct to argue, as some implicitly do when they make alarmist statements about Canada's Travel Account deficit, that every account in the balance of payments statement must balance (or even be in surplus). International trade principles dictate that each country should specialize in producing those goods and services which it can with most relative efficiency, leaving other countries to complement this production by producing those which they can with most relative efficiency. Following this principle, deficits in some accounts and surpluses in others are to be expected. Canada would appear to be particularly well situated for specialization in travel/tourism, being contiguous with the world's premier travel market, the United States, and having a wealth of natural attractions. Indeed, Canada's overall travel/tourism product is such that it is probably less sensitive to the rigours of international competition than many other Canadian goods and services. This is reflected in the fact that travel/tourism receipts have been growing at an annual rate of 12.3% since 1960. During this same period, the average annual rate of growth in receipts from the export of all goods and services has been 11.8%. Not only has the growth on international travel/tourism to Canada been rapid, but it has also been stable (discounting the special case of Expo 67).

Graph G8 shows the growth of some of Canada's principal earners of foreign exchange, including travel/tourism. These groups represent 37% of Canada's receipts from exports of goods and services for 1970.

It does not follow from this that Canada's Travel Account should necessarily be in surplus. However, it does demonstrate that travel/tourism is a stable, rapid-growth earner of foreign exchange with the added advantage that it is not susceptible to tariff barriers imposed by importing countries.

GRAPH G7

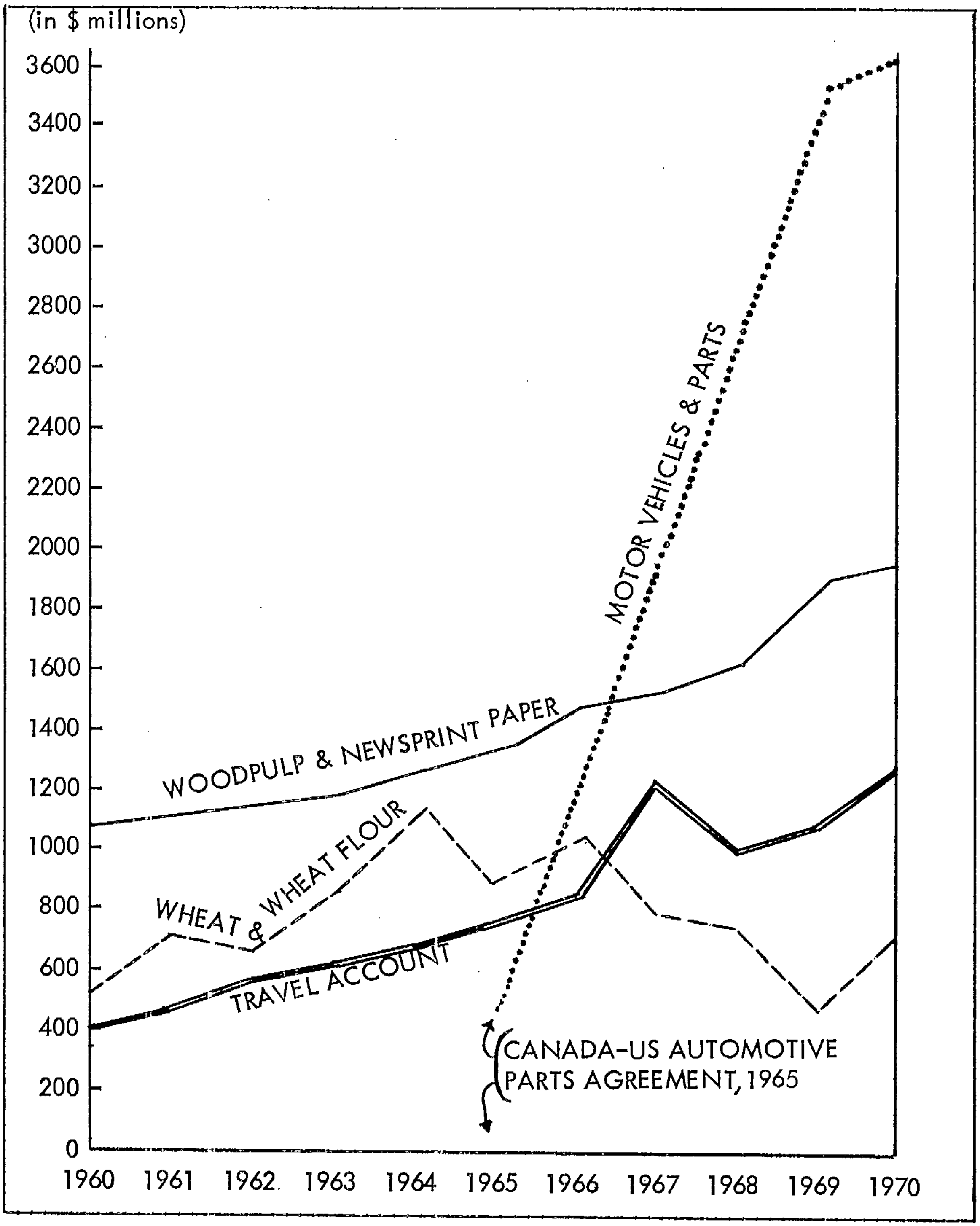
THE CANADIAN BALANCE OF PAYMENTS TRAVEL ACCOUNT



SOURCE: Statistics Canada, Catalogue No. 67-002.

GRAPH G8

GROWTH TRENDS FOR MAJOR CANADIAN EXPORTS* 1960-1970



* 37% of Exports of Goods and Services in 1970.

SOURCE: Statistics Canada, Cat. No. 11-003
No. 67-001

Summing up, the principal advantages of travel/tourism as an earner of foreign exchange are that:

a) it has excellent growth potential;

b) its growth appears to be highly stable (see Graph G8);

c) it is not subject to a trade agreement which could be rescinded if the international trade climate were to change*;

d) it is relatively immune to most trade barriers and thus can weather most international trade re-adjustments. Direct controls on travel are high among the policies most repugant to Western countries.

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* There have been disturbing rumblings in the U.S. Congress about the Canada-U.S. Automotive Parts Agreement of 1965. A rapidly-growing sector of the Canadian economy is largely dependent upon the Agreement.

Section 7. The Impact of Travel/Tourism on the Natural and Social Environment

Much has been said of travel/tourism's relation to the spiritual as opposed to the material side of life. The non-business traveller by-and-large approaches his travelling as a quasi-educational experience. He not only sets out to "see things", but to have a different experience, to broaden his conception of the world. This is particularly important for a multifarious federation like Canada. The Federal Government has recognized that inter-provincial contacts amongst citizens encourage a sense of nationhood. Student tours on a large scale have been organized in recent years to this end. Insofar as inter-provincial travel/tourism by Canadians reduces the regional alienation which can be noted in many parts of Canada, and which is to a large degree based on a stereotyped view of the rest of the country, it must be considered as making an important social contribution. This factor is becoming increasingly recognized.

Another important characteristic of travel/tourism revolves around the current concern for ecology. The way in which a free enterprise economy traditionally allocated its resources was to give entrepreneurs a relatively free hand in seeking their own private profits through competition for resources in the marketplace. The natural tendency to attempt to maximize returns resulted in the creation of jobs and taxable income, and was alleged to produce a socially ideal situation. The current view is somewhat different. It has been noted that in addition to <u>private</u> costs and returns, there are <u>social</u> costs and returns. If private concerns are allowed to be the sole determinants of resource allocation, they will tend to select high-private-net-return, high-social-net-cost* activities over lower-private-net-return, high-social-net-return activities. Because social costs and benefits are not taken into account in profitability calculations by private entrepreneurs, the government intervenes in varying ways** to try to arrive at a resource allocation which maximizes the total of private and social benefits. In the case of many industries which inflict a high social cost through water and air pollution, the government has intervened via legislation. In the case of travel/tourism which has a low social cost, pollution-wise, and delivers considerable social benefits***, the government intervenes in a positive way to maximize these total returns.

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* Water pollution is an example of a social cost which the private entrepreneur has not, until recently, had to consider in his profit-maximizing decisions.

** Through legislation, loans, grants, direct investment, fiscal and monetary policy, etc.

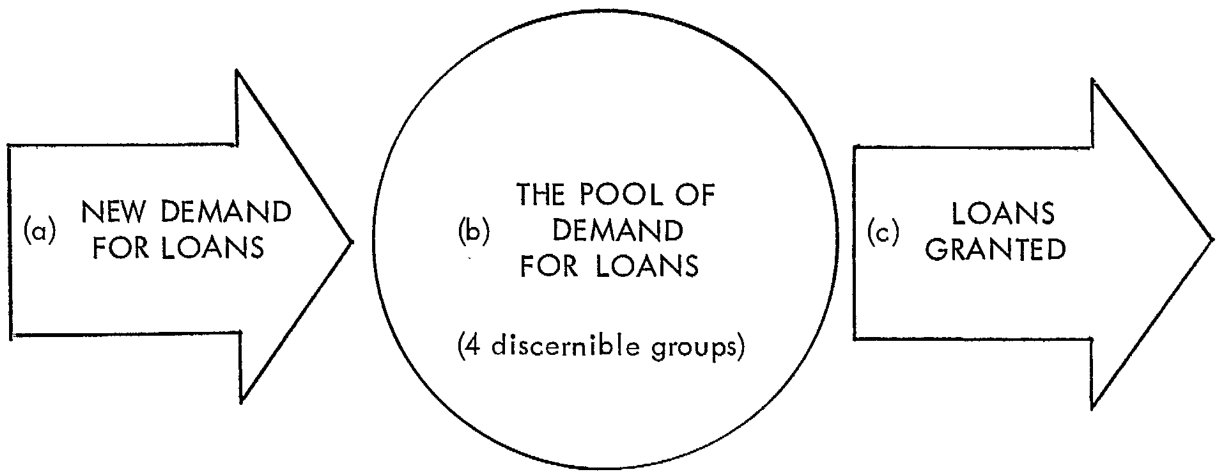
*** Travel/tourism may actually improve the quality of the environment by encouraging the preservation of historic sites, interest spots, and natural phenomena.

PART H - STATEMENT OF THE FINANCING PROBLEM

Section 1. A General Conception of the Financing Problem

If one considers the "Present Credit Needs" reported in 1970 as constituting a pool of demand for loans — a pool which never wholly disappears but rather fluctuates in size as new demand for loans arises and as demand within the pool is satisfied — it then becomes instructive to consider the factors which determine the size of the pool. Diagram H1 illustrates this schema.

DIAGRAM H1



It is evident that the "New Demand for Loans" feeds the pool, and the "Loans Granted" drain it. If the "New Demand for Loans" is greater than the "Loans Granted", there will be a net increase in the amount of demand in the pool, and if "Loans Granted" are larger, there will be a net reduction in the size of the pool.

In what follows, there will be assessed the factors which create "New Demand for Loans", those which cause certain operators to remain in the pool of unsatisfied demands, and those which determine the flow of "Loans Granted". In the course of this elaboration, certain problems of the accommodation sector* will be touched upon. Thereafter, the situation as it existed in 1970 will be considered.

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* It should be recalled at this point that when we refer to the "accommodation sector" we refer only to that part of the sector with which this study is concerned; this excludes non-campground operations of more than 100 units.

(a) The New Demand For Loans

Travel/tourism activity in Canada has been increasing at a very rapid rate. There is evidence that the distribution of new domestic demand for accommodation is tending to be less seasonal due to the rise in winter sports such as skiing (though the seasonal maldistribution of demand for accommodation remains this sector's greatest single problem). This increase in travel/tourism activity has brought about a corresponding increase in the demand for development credit for new construction and an amelioration of the existing plant. To summarize, the "New Demand For Loans" is determined by:

- The increasing demand for travel/tourism accommodation which leads to an expansion of development.

- The rate at which existing plant wears down and requires repair or replacement. While this involves depreciation, which should normally be financed from revenues, there could be a large element of "catching-up" by existing sub-standard operations which require improvement.

- Current capital market terms, when they are easing. Easier terms stimulate the conception of new projects and bring about a desire for refinancing.

In a sense, every operator who has debts is a potential demander for refinancing funds in that he would accept a loan at more favourable terms to refinance an existing one. The interview revealed that 6.4% of the total reported credit need was for re-financing purposes. It is thought that this may include only the "hard core" problems.

(b) The Pool of Demand For Loans

Once in the pool of operators having a need for credit, an operator may find himself "trapped" there due to the fact that he cannot obtain a loan, or he may elect to remain there because he finds the market terms unacceptable. A third important group in the pool, a transitional group, consists of those who are there due to a time lag between the conception of a project and the granting of a loan. Members of this group will probably not yet have applied for a loan, but upon application, a loan will materialize. The fourth discernible group in the pool consists of those who wish to refinance existing loans. To the degree that this small group is prey to usurious terms with the result that the viability of group members is threatened, it constitutes a problem.

(i) The "Trapped" Group

This group of operators finds itself "trapped" because it cannot obtain financing. Most of the problems inherent in the accommodation sector are reflected in this group.

- Some operators are not economically viable and infusions of credit do not promise to make them so. This is often due to the fact that they cannot attract customers, so that it is difficult to make a case for credit to be diverted to them.

- Some have viable projects, but are incapable of presenting their case convincingly to the financial institutions.

- Some, particularly in the case of non-urban operations, do not know of the various conventional and public credit sources open to them, or, knowing of them, they do not find these sources easily accessible. The surprisingly low proportion of applicants who approached the IDB in some provinces indicates that this ignorance and inaccessibility may be a considerable problem.

- Some are turned down by lending institutions because the applicants show poor management characteristics which could jeopardize an otherwise sound project.

- Some operations are marginal and are thus unsuccessful when there is a shortage of loanable funds. These circumstances frequently lie behind what has become a chronic complaint of the small businessman: that he is given all too little consideration; but sometimes there is discrimination on the part of the lender.

Most of the cases cited above involve management difficulties. Raising the managerial quotient of this group would make the operators much more capable of coping with their financing problems, and thus put them in a better position to compete for funds. In some instances, the operator finds himself dealing with lending institutions which are just not interested in the accommodation sector, or at least are unmistakably disinterested when it is a case of seasonal operations and when loanable funds are in short supply. To a degree, this is evidence of the sector having failed to "sell" itself and its potential to the lending community, for when lenders discriminate it is not out of irrational dislike, but because they believe that certain elements of the accommodation sector do not provide opportunities for sound investment.

(ii) The Group which Declines Borrowing Opportunities

This second group within the pool, those who could obtain financing but are declining to accept current terms, is in the pool for quite different reasons from the first group. While the "trapped" group truly constitutes a problem in that its members wish to leave the pool but cannot, this second group chooses to remain.

- Some operators are in the pool because they consider their projects too marginal to warrant accepting current interest rates and repayment periods. Nevertheless, even though their projects are questionable, their general operation is prosperous so that lenders are willing to extend credit at a price.

- Others in this group have sound projects which could support current credit terms, but because the operators' expectations are that credit terms will soon ease, they consider themselves justified in waiting. Whether their decision is a good one depends upon the likelihood of terms improving, and upon the amount of profit which they must forego in retarding their projects. Presumably, at some point, whether their expectations are borne out or not, they might accept a loan.

- Still others have sound projects which could bear current terms, but these operators are unaware of financial management principles and thus decline loans because in their judgement rates are "too high" in an absolute sense. They differ from the previous case in that they are not primarily guided by expectations.

- Some operators in this group cannot obtain the full amount which they desire, but only some portion of it. These operators should consider whether the grounds for diminution are sound, and they should further consider the effect upon the cost and viability of the project if it is reduced in scale.

Generally, this group's decision to decline credit should be the measure of the viability of their projects. There is evidence, however, that many are in this group because they do not have the managerial ability to assess their respective positions relative to capital market conditions. It would be difficult to estimate what proportion of this group should have accepted the capital market terms which they were offered.

The lending practices of the Industrial Develoopment Bank provide us with a benchmark for assessing the two preceding groups' "financing" problem. This federal agency has no ceiling on the amount which it can loan and it purports to be lending to all viable operations which cannot obtain financing on"reasonable" terms elsewhere. It is not clear what is considered "reasonable", but it should not be much higher than the 10% IDB rate which prevailed in 1970.* The average repayment period for an IDB loan to an operator in the accommodation sector is approximately 10 years, somewhat longer than the average repayment period of IDB loans to all other sectors. The Bank reports a good repayment record for the accommodation sector. Despite this laudable performance, there is reason to believe that the IDB is not well enough known or not easily enough accessible to a considerable portion of the accommodation sector.

(iii) The Transitional Group

This group, by definition, does not have a financing problem. The fact that a loan will materialize suggests that both they and the lenders view their projects as sound. They are in the pool because of a time lag between the conception of a project and the granting of the required financing.

(iv) The Refinancing Group

This group reported a credit need of approximately $51 million in the Memorandum of Interview. This was 6.4% of the total reported credit need and 6.5% of the total debt outstanding and probably includes only the hard-core refinancing problems. A general and fairly rapid rise of interest rates in the five years preceding the interview probably choked off considerable demand for refinancing funds. This fact would suggest that the major part of the refinancing group would be facing terms that are truly excessive even by current standards. The fact that they got into this predicament may be a sign of management problems.

(c) Loans Granted

The total amount of the loans granted in any year, and whether any individual loan materializes, depends upon:

- The lender's ability to visualize a project's viability. Those who make the lending decision often see problems in a project which the applicant does not. On the other hand, an applicant must present his case so that the project is seen to maximum advantages. Some

* The IDB may consider terms "unreasonable" on grounds other than a high rate of interest.

charge that the accommodation sector has certain peculiarities such as seasonality which only specialized lenders can fully appreciate. There is little doubt that sector applicants often meet lender reticence based on a lack of familiarity with certain viability criteria of accommodation operations. That these cases exist is true, but the accommodation sector holds in common with other types of enterprises many of the characteristics which lenders use as lending criteria.

- The applicant's willingness to accept the terms of the loan. Obviously, this will become less of a constraint as credit conditions ease, and more of a constraint when conditions tighten.

- The supply of loanable funds. It is often suggested that small enterprises are "last in" when the supply of loanable funds is expanding, and the "first out" when it is shrinking. This is one of the reasons why the IDB was established and the Small Businesses Loans Act was passed.

- The lending institution's policy. Some types of institutions specialize in certain types of loans (e.g. public housing) and are very hesitant to lend to unfamiliar types of operations. Some of the institutions disclosed in personal interview that they were averse to lending to small accommodation operators.

Section 2. The Accommodation Sector in 1970

Having elaborated upon the concepts and some of the problems underlying the financing of the accommodation sector, it is appropriate now to examine actual conditions as reported in 1970. The discussion and calculations will again follow the schema illustrated in Diagram H1.

(a) The Pool of Demand For Loans

Though the total credit need reported by all types of accommodation at the time of interview in 1970 was $796.5 million, there are several factors which make this figure an overestimate of the pool demand. To arrive at a better estimate, certain assumptions mut be made and be utilized in the corresponding calculation as follows:

(i)	The total credit need reported by respondents	$796.5 million
(ii)	4.1% of this amount had been obtained by the "Needed, Tried and Got Credit" group	$33.1 million
	(i) - (ii)	$763.4 million
(iii)	The remaining $763.4 million was allocated among the remaining two credit need groups as follows:	
	- "Needed, but Did Not Try to Get Credit" group	$438.6 million
	- "Needed, Tried, but Did Not Get Credit" group	$324.8 million
(iv)	Of the $438.6 million reported by the group which did not try to borrow, let it be assumed that 50% was reported by operators who were not serious in their report, or who overestimated their need.* This leaves ...	$219.3 million
(v)	The total need reported by those who tried to borrow is included in the pool**	$324.8 million
(vi)	The total size of the pool is, therefore .... [(iv) + (v)]	$544.1 million

---

* Surely this is a conservative assumption. Many would completely discount the claims of any operator who did not back up his reported credit need with an attempt to borrow.

** All of these operators "proved" that their claims were serious when they attempted to borrow.

(vii) In the survey, 16.3% of those who tried to borrow received loans. Let it be assumed that 16.3% of the $219.3 million claimed needed by those who are in the pool but have not yet tried to borrow will be obtained. This represents the "transitional" group .... $35.7 million

(viii) The sum required for the refinancing group is* .... $50.7 million

(ix) The "Trapped" group and the group which declined loans need together .... $457.7 million

[[(vi) - [(vii) + (viii)]]]

(x) In the survey, approximately 50% of those who attempted to borrow turned down loans, and the remainder were turned down by lenders.** We shall assume, then, that the two groups cited in item (ix) split evenly:

The "trapped" group which cannot obtain credit .... $228.8 million

The group which could obtain credit .... $228.8 million

(xi) Within the "trapped" group are some operations with unviable projects. Since this group, by definition, consists of operations which were or would be refused loans, let it be assumed that 50% of their projects are unviable, and that the remaining 50% have fallen victim to poor presentation, inaccessible sources of financing and conservative lending policies, or have not attempted to borrow because they know that their applications would be turned down. Thus:

- Viable Trapped group .... $114.4 million

- Unviable Trapped group .... $114.4 million

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* This sum is an actual count from the interviews.

** This assumption derives from the reasons given by applicants why a loan did not materialize.

The following table summarizes the breakdown of the pool for 1970:

TABLE H2

THE POOL OF DEMAND FOR LOANS (1970)

Viable Trapped Group	$114.4 million
Unviable Trapped Group	$114.4 million
Transitional Group	$35.7 million
The Group Which Could Obtain Credit	$228.8 million
Refinancing Group	$50.7 million
TOTAL POOL	$544 million

(b) The Loans Granted

The following table indicates the loans reported in the Memorandum of Interview for the years 1965 to 1969:

TABLE H3

LOANS GRANTED TO THE ACCOMMODATION SECTOR

YEAR	TOTAL LOANS GRANTED	DEVELOPMENTAL LOANS	REFINANCING LOANS
1965	$114.5 million	$72.2 million	-
1966	$70.6 million	$28.1 million	-
1967	$137.9 million	$67.5 million	$1.3 million
1968	$127.1 million	$51.8 million	$2.3 million
1969	$155.0 million	$40.9 million	$0.8 million

SOURCE: Memorandum of Interview.

Table H3 shows that the average annual infusion of development credit in the years 1965 to 1969 inclusive, was $52.1 million; and the average annual amount of refinanced loans was $1.5 million in the years 1967, 1968 and 1969. These figures should not be regarded as constraints. It is within the power of the "Viable Group Which Could Obtain Credit" to increase this flow simply by accepting the terms which they have been offered. The size of the pool, however, suggests that this average annual flow of $52.1 million has been considerably smaller than the flow of new demand.

(c) The New Demand for Loans

Breaking down the pool of demand for loans permits development of some notion of the average current flow of annual demand for loans to finance viable, developmental projects. This flow excludes all demand by non-campground operations of more than 100 units (which were judged to be doing comparatively well), all demand for refinancing (which could become torrential in conditions of easing credit terms), all demand by would-be operators who are not presently in the accommodation sector, and all demand for "transfer" credit. Furthermore, there is excluded from the calculation the amount demanded by operators who would be part of the "Unviable, Trapped Group", as they do not represent projects which will be financed under any circumstances. In short, the figure for new demand encompasses only the sum which will have a positive quantitative or qualitative impact on the sector.

The figure for new demand comprises the needs of the "Viable Trapped Group" ($114.4 million) and the "Viable Group Which Could Obtain Loans" ($228.8 million). These two groups accounted for $343.2 million in 1970 (63% of the total pool of demand). It is assumed that under ideal financing conditions these groups would be of a negligible size, and further assumed that the credit need they jointly reflect had been building up over the five previous years (which roughly coincide with the years of tightening credit market conditions). This would suggest an average current annual flow of unsatisfied new demand for developmental loans by existing commercial campground operators plus non-campground operators of 100 units or less, of approxmiately $68.6 million*. To estimate the total flow of new demand, there must be added to this $68.6 million, the total of satisfied demand, that is to say, the loans granted. This sum amounted to an average of $52.1 million (see Table H3). The total flow of new demand is, therefore, approximately $120.7 million. This figure amounts to 4% of the reported market value of the sector. This flow therefore implies a believable growth pattern.

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* $343.2 m. ÷ 5 years = $68.6 million.

TABLE H4

AVERAGE ANNUAL NEW DEMAND FOR VIABLE DEVELOPMENTAL LOANS

Average Annual Unsatisfied New Demand	$68. 6 million
Average Annual Loans Granted	$52. 1 million
Average New Annual Demand	$120. 7 million

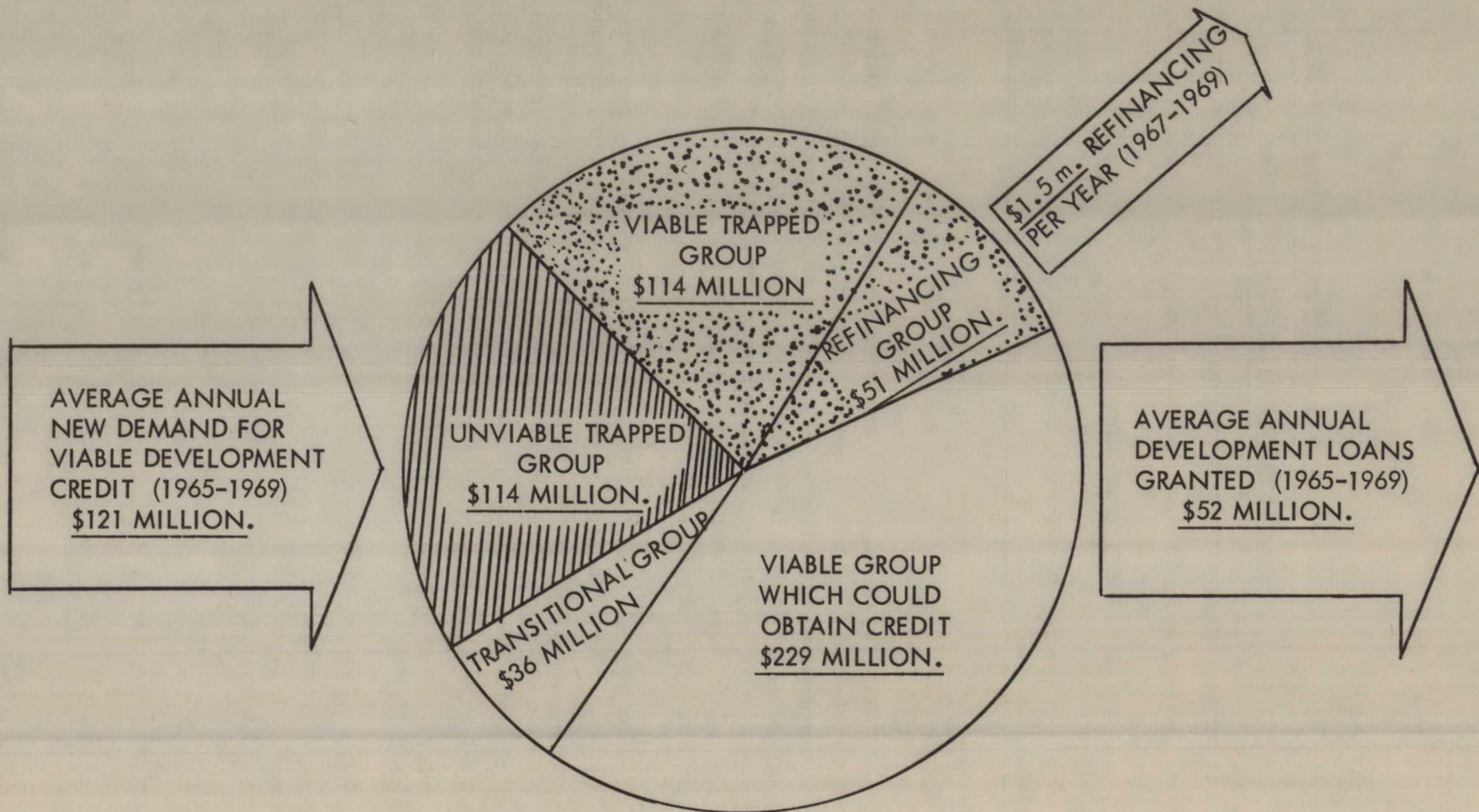
(d) Résumé

Combining calculations as to the breakdown of the pool and the two associated flows, the following schema results. The calculations suggest that the sector has, in recent years, not received the financing which it could have absorbed. In large part, this situation was of the sector's own choosing, as many operators would not accept prevailing often usurious borrowing terms, but many others (approximately one-third) could not obtain credit because existing lending institutions, public or private, would not extend it.

Diagram H5 shows the "problem " groups as shaded. As noted in Section 1, all groups within the pool, in varying degree, require a higher standard of managerial abi lity, so that the "financial problems" which are found in this pool are not merely a matter of "financing". In this respect, the whole pool has a problem. Though the "Viable Group which Could Obtain Credit" is not shown as a problem group as such, many within the groups face interest rates which are truly usurious.

DIAGRAM H5

A SCHEMA OF THE FLOW OF CREDIT FOR ALL COMMERCIAL CAMPGROUNDS AND THOSE NON-CAMPGROUND OPERATIONS OF 100 UNITS OR LESS (1970)



POOL OF PRESENT CREDIT NEED FOR ALL PURPOSES (1970)

PART I - CONCLUSIONS

Section 1. General Conclusions

(i) The larger accommodation enterprises have, to a degree, felt the economic pinch of high interest rates, investor uncertainty and the competition for scarcer credit of recent years, but their general characteristics spare them from many of the difficulties endemic among their smaller counterparts. Generally speaking, these larger operations enjoy economies of size, an urban location, professional management, referral reservation systems, a wide range of ancillary facilities, advertising promotion, a high-spending expense-account-oriented clientele, year-round operation, and access to a wider variety of financing sources and methods. Many of these characteristics are the advantages of being franchised operations. For these reasons, non-campground enterprises containing more than 100 rental units were eliminated from the interview part of the survey and are not included in subsequent conclusions. (Such enterprises account for approximately 2% of the total number of operations in Canada, and contain approximately 16% of the total number of non-campground units.) The following conclusions relate to the remaining 98% of total operations, 84% of the non-campground units and all commercially-operated non-government campgrounds.

(ii) The complaints about credit scarcity and prohibitive lending terms which were directed to the Office of Tourism during andprevious to this study, appear, in part, to have been a product of general economic conditions in Canada. The Canadian economy, in the years preceding the study, moved into a period of monetary restraint combined with a rising rate of price inflation. The former was, in fact, a reaction to the latter. A tighter monetary policy reduced the supply of loanable funds thereby causing the price of money (interest rates) to rise; inflation caused the financial institutions to raise the interest rate further in order to cover themselves against erosion of the principal which they were lending. Approaching 1970, even the element of risk, which is a constituent part of interest rates, probably increased as more enterprises developed cash problems. Insofar as all or any of these factors improve, the financial problems which were reported will be alleviated to some degree.

(iii) While a relatively detailed picture emerges of the financing and other characteristics of the total Canadian accommodation sector surveyed, there are important and substantial deviations across the country. Solutions to the problems identified would have to be flexible enough to deal with those variations.

Section 2. Economic Performance

(iv) A considerable proportion of accommodation enterprises are returning a very low or even negative net return when judged by strict accounting standards. The operators of some of these facilities are retired from other occupations; others operate accommodation facilities as a sideline to another business; some have no alternatives for employment; many use unpaid under- or unemployed family help whose opportunity cost is low or non-existent; still others live on the premises and thus receive a non-monetary return. In these cases, the owner-operators are often willing to accept less for their labour, management and equity as the price for independence, which in turn constitutes for them a considerable psychic return. As long as these operators are aware of alternatives open to them, we should consider that they are providing a useful and necessary service to their customers so that there may be a social case for encouraging their continued existence.

(v) Much of the study focused on a comparison of various characteristics of operations grouped according to credit situation. Thus, respondents to the Memorandum of Interview fell into the following "Present Credit Need" groups:

- No Need for Credit;
- Needed, Tried, and Got Credit;
- Needed, Tried, but Did Not Get Credit;
- Needed, but Did Not Try to Get Credit.

Though one might expect that the group which was successful in obtaining credit would have the best economic performance and characteristics, and the group which was unsuccessful would have the worst, this was not the case.

(vi) The "No Need for Credit" group demonstrates relatively desirable characteristics:

- an average number of 17.6 units per operation;
- the highest occupancy rate (57%) of any group;
- the highest return to capital, land and management (16%);
- a slightly-below-average capacity for debt repayment (13% of gross receipts could be set aside for this purpose);
- an owner equity ratio of 68%.

(vii) The "Needed, Tried and Got Credit" group had the poorest performance and characteristics of any group:

- the lowest average number of units per operation (15.7);
- the lowest occupancy rate (44%);
- the lowest return to capital, land and management (9%);
- the lowest capacity for debt repayment (12% of gross receipts);
- an owner equity ratio of 70%.

It should be noted, however, this was also the group with the smallest sample size, so that it also has the lowest reliability.

(viii) The "Needed, Tried, but Did Not Get Credit" group demonstrated relatively desirable characteristics and future potential:

- an above-average number of units per operation (21.7);
- a relatively low occupancy rate (49%);
- an average return to capital, land, and management (14%);
- by far the highest capacity for debt repayment (18%);
- an owner equity ratio of 67%.

(ix) The "Needed, but Did Not Try to Get Credit" group was slightly-above or slightly-below average with respect to every characteristic:

- a slightly-below-average number of units per operation (16.6);
- a slightly-above-average occupancy rate (56%);
- a slightly-below-average return to capital, land,and management (13%);
- a slightly-below-average capacity for debt repayment (13% of gross receipts);
- a slightly-above-average owner equity ratio of 70%.

Section 3. The Factors Determining Profitability

(x) The accommodation sector is particularly susceptible to a large number of factors any one of which can have a great impact on profitability. Some of these factors, such as the weather, are oscillatory; others, for example the changing preferences of travellers, trend in one direction but are largely beyond the control of the sector operators; a few, however, such as size of operation, ancillary services offered, occupancy rates, seasonality of operation, and managerial capability, are within the sphere of influence of most operations.

(xi) The size of an establishment is a very significant factor determining profitability and capacity to expand. In small operations, the owner-manager's labour receives too high a share of the total net return, leaving little as a return to land and capital. The operator usually requires a certain fixed minimum of the total net return to subsist upon, so that, in a small operation, virtually nothing is left to finance the expanding of the establishment. If the operation is deemed unprofitable, the operator is handicapped when he tries to obtain credit. Yet, without expansion he cannot hope to increase the net return which is residual after meeting his personal requirements and which would permit him to finance future expansion through retained profits, nor can the labour inputs become numerous enough to permit more specialization and thus more efficiency. The operation thus finds itself in a familiar vicious circle.

(xii) The study revealed a clear positive correlation between higher net return to capital, land and management, and larger size of operation.

(xiii) A wide variety of ancillary services (dining facilities, entertainment, etc.) increases the average expenditure per guest, attracts the type of guest who looks for accommodation which will supply all his needs, and thereby increases the occupancy rate.

(xiv) Occupancy rates tended to increase with the size of operation though it was not established whether larger size increases the occupancy rate, or whether high travel-density areas cause larger-size operations to be constructed there.

(xv) The seasonal nature of travel/tourism is and threatens to remain the accommodation sector's most intractable problem. Approximately one-third of the non-campground establishments surveyed (31.9%) operate for less than seven months per year. There are great potential gains to be had from any development which effects a seasonal levelling out of demand for accommodation.

(xvi) Poor management, while a perennial small-business problem, appears particularly to afflict the accommodation sector. The provision of lodging seems deceptively simple, whereas, in fact, the sector is inordinately sensitive to location characteristics, weather, changing tastes, etc. Many of the inadequate managers are capable of directing the day-to-day operations of their establishment, but are generallyill equipped for long-term financial management, and in many cases, do not record even the most rudimentary heuristic information. These inadequacies prevent the managers from efficiently using the resources they have, and further impede their being able to make a convincing application to a lender in order to increase those resources. The study is replete with problems which require more sophisticated management for their solution.

(xvii) Interviewer assessments of the calibre of management indicate that individually-owned operations tend to be more poorly managed than partnerships or incorporated enterprises. The interviewers further assessed that managerial ability was higher in larger-size operations.

Section 4. Financing the Sector

(xviii) One of the clearest conclusions which emerged from the survey was that interest rates for loans to accomodation operators in Canada have been rising dramatically since 1966 (the average chartered bank loan to the accommodation sector moved from a 7.1% rate in 1966, to 10% in 1970).

(xix) The average interest rate on accommodation sector loans from mortgage companies are considerably higher than those one would normally expect for small businesses. Furthermore, this rate has been increasing relative to other rates, until, in 1970, the average rate on 49 observed loans issued to accommodation sector operators was 13.6% (in 1969, 75 observed loans averaged 11.9%). Since mortgage companies in the past have constituted the largest single source of development credit, and since very little credit expansion can occur at prevailing interest rates charged by the mortgage companies, the development of the accommodation plant in Canada may become dependent upon the ability of alternative sources to increase their lending activity. There is evidence that the Industrial Development Bank has, to a degree, moved to fulfill this role.

(xx) The accommodation sector harbours several inherent characteristics (e.g. seasonality, small-size of operation, location, dependence upon weather, poor management) which make it one of the least attractive investment areas from the conventional lender's point of view. To compound this problem, many lenders do not have the experience and are just not equipped to assess the profitability of travel/tourism accommodation projects. For these reasons, lenders tend to discriminate in favour of more conventional investment areas, e.g. private housing.

(xxi) Over one-half (55%) of the total reported amount of loans came from "private" sources, the remainder issuing from the conventional lenders and public lending authorities. The bulk (90%) of the amount loaned by these "private" sources was for the purpose of financing the transfer of ownership of existing operations, mainly through ex-owners financing new owners. It would appear that this phenomenon of transfer of ownership is indicative of financial hardship rather than of lucrative investment opportunities in the accommodation sector. The conventional lenders and public lending authorities are mainly concerned with development, as opposed to transfer, loans.

(xxii) There is evidence that public lending channels — provincial authorities in those provinces where they exist, and federal sources such as the Industrial Development Bank or deriving from the Small Businesses Loans Act — have had a not insignificant role in financing the Canadian accommodation sector (7.3% of the total reported amount borrowed by this sector in the years preceding the interview). Provincial lending authorities report a problem of insufficient funds to lend, but the IDB has no such constraint and claims to be meeting all qualifying applications.

(xxiii) Industrial Development Bank lending to the accommodation sector has increased both absolutely and relative to other industry sectors. In 1966, the "Hotels, Motels and Other Lodgings" category received $6.7 million, 5% of the total amount loaned by the IDB in that year. In 1970, this same category received $17.8 million, 10.8% of the total amount loaned by the Bank.* The Bank does not consider itself as competing with conventional lenders and, thus, will not lend if reasonable alternative financing sources are available. It is significant that no operator reported having been declined by the IDB on grounds that a reasonable alternative source was open to him.

(xxiv) Estimates indicate that the IDB is presently providing at least one-fifth of the development credit presently reaching the operations with which this survey is concerned.

(xxv) IDB loans to the accommodation sector during the years 1966 to 1970 had an average repayment term of approximately 10 years. Several cases were reported of up to 15 years.

(xxvi) The Department of Regional Economic Expansion administers a variety of programs which have considerable potential for application to the accommodation sector of the travel/tourism industry, but the Department's terms of reference and prerequisites are such that most of the operations with which this survey has concerned itself would be too small to qualify for assistance. Despite this, several DREE programs could have a positive, indirect effect upon the smaller operations through the creation or improvement of travel/tourism infrastructure.

(xxvii) Many operators and their representatives claim that development loans to the accommodation sector carry too short a repayment term. Evidence that they are often short, depending upon the financing source, emerges from the study. Any individual loan should have a repayment period which is not so short as to threaten a cash-flow problem, nor so long as to extend beyond the obsolescence point of the facilities financed.

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* Since the completion of this study, the IDB has reported that their lending to this category during 1971 increased by 56%, to $27.9 million.

(xxviii) The Western Provinces had been receiving a share of the total reported financing in the years preceding the interview, which was higher-than-proportional to their share of the total number of accommodation operations in Canada. Ontario had been receiving a proportional share. The Atlantic Provinces and Quebec had been receiving a less-than-proportional share of total reported financing. The same pattern applied to the distribution of the total debt outstanding of the accommodation sector.

Section 5. The Supply of and Demand for Accommodation

(xxix) The average occupancy rate of the non-campground operations was 55% even after discounting the seasonal element. This would suggest that in Canada as a whole, except for a short part of the summer, there may be an excess supply of non-campground accommodation. Due to a high peaking of demand in travel/tourism, it cannot be economical to have a plant which will accommodate all demand in peak periods. It is furthermore quite conceivable that the accommodation sector could increase its net income simply by reducing its number of units. Many who reported a credit need for expansion may have succeeded only in reducing their net income had they been successful in obtaining a loan.

There is some suggestion that the average occupancy rate from the survey was adversely affected by those operations(most often non-urban) which maintain accommodation rental units simply to qualify for a liquor license and do not purposefully market their accommodation per se; these units might therefore justifiably be subtracted from the total before computing the average occupancy rate. The survey yielded no information which would permit us to determine the significance of this factor.

(xxx) Though there may not appear to be an overall shortage of accommodation, there are undoubtedly shortages of certain types of accommodation, shortages at certain times, and shortages in certain places. Most of these shortages appear to be related to seasonal recreation-oriented travel as opposed to the more consistent business travel. Approximately 57% of the total reported "Present Credit Need" was for the purpose of enlarging existing facilities. This amount would be equivalent to 48,000 additional rental units with ancillary facilities.

(xxxi) There is evidence of a substantial need for credit to effect qualitative changes in the industry. Not only has the demand for accommodation been rising in volume terms but also in relation to quality and type of accommodation. One-third of the reported "Present Credit Need" was for the purpose of improving existing facilities, or providing additional ancillary services. As a consequence of the change in demand for type of accommodation, the number of hotels appears to have remained fairly static in recent years, while the number of motels has risen dramatically. Qualitative changes, such as winterizing and improvement of recreational facilities, could extend the seasonal operation of the sector.

Section 6. Present Credit Need

(xxxii) Respondents to the Memorandum of Interview who were asked whether they had a "Present Credit Need" fell into the following groups in the proportions shown:

- No Need for Credit 30.7%
- Needed, Tried and Got Credit 3.2%
- Needed, Tried but Did Not Get Credit 16.4%
- Needed, but Did Not Try to Get Credit 49.7%

The second group is not very significant except as a control group. The fourth group involves one-half of all operators, some of whom are not really convinced about their cited need and possibly would not take on additional debts even if loans were offered to them at low rates of interest, some of whom are pessimistic about their chances of success or, knowing market conditions, find current terms unacceptable, and some of whom haven't yet applied, but will do so shortly.

(xxxiii) The total present credit need reported by operators of non-campground establishments of 100 units or less, at the time of interview, amounted to approximately $763 million.

(xxxiv) The total credit need reported by operators of campground establishments, at the time of interview amounted to approximately $33 million.

(xxxv) It is clear that the accommodation sector could not, presently, economically absorb such an increase in plant as is implied by $796 million of "Present Credit Need" given present supply and demand patterns. It is probable that a significant part of the credit-need figure is based upon an impulse at the time of interview, and it is believed that many of those who seriously expressed a credit need would revise their requirements downwards if confronted with the fact of an imminent total increase of this size in the sector. In a sense, each operator assumed that everything would remain equal save his own operation, while in fact, if all the credit "needs" were satisfied, there would be a substantial change in the supply of accommodation and, consequently, in competition within the sector.

(xxxvi) Operators appear to be overestimating the ability of additional credit to increase their gross receipts. On the whole, the sector could not hope to repay additional loans from the proportions of gross income which operators claimed to be able to afford, unless those loans generated increases in income grossly out of proportion to their present performance.

(xxxvii) The fact that the group which tried to borrow but did not get credit has economic characteristics considerably superior to those of the group which tried to borrow and got credit, indicates that there was a large element of applicants declining loan offers by reason of the terms and conditions attached. This conclusion gains further credence from the large incidence of "Short Term" and "High Interest" as reasons why an application did not result in a loan. In many cases, these terms may have been excessive, but in other cases, they simply reflected existing market conditions.

(xxxviii) Approximately 80% of the total reported present credit need was cited by non-seasonal operations, that is to say, enterprises operating twelve months per year. It is reasonable to believe that these operators were more likely to be serious in their reported desire to assume additional debt than their seasonal counterparts. This would indicate that the seasonal operations constitute a smaller part of the total need picture than is sometimes suggested, though they undoubtedly are more handicapped when trying to borrow. The seasonal operations showed a high tendency (69%) not to attempt to borrow the funds which they claimed to need. When an operator had not tried to borrow a sum which he reportedly needed, he had a tendency to be small, seasonal and non-urban. Thus, it would appear that the financing problem is widespread, though particularly acute among small, seasonal operations.

(xxxix) Eliminating that part of the total accommodation sector's reported present credit need estimated to be based on a whim of the moment, left a pent-up credit demand which consisted of the following groups and amounts:

- a transitional group of operators which had not yet applied for loans, but which would obtain them when it applied ....approximately $36 million
- a group which already had loans, but which required refinancing, presumably because they consider that the terms attached to those loans are unreasonable by recent standards .... about $51 million
- a group of operators which desires credit but which is not economically viable .... about $114 million

- a group which is economically viable, but which has been refused credit because of poor presentation, inaccessible sources of financing, a shortage of credit and/or conservative lending policies, or has not tried to borrow because of the above factors...about $114 million

- a group which is economically viable and which could obtain credit, but which is not prepared to accept current lending terms..about $229 million

(xi) The amounts required by these five groups have been mounting since 1965, because the flow of development credit to the accommodation sector has constantly fallen short of demand. Estimates indicate that the annual new demand for viable development loans during those years averaged approximately $121 million per year, that the annual amount of development credit (exclusive of transfer credit or re-financing) granted during those years averaged about $52 million per year, so that there has been an average annual shortage of approximately $69 million.

PART J - APPENDIX

Section 1. Specifications of the Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada

Summary

The sample frame for the Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry was based on information obtained from the list of Tourist Accommodation operators, compiled by the Merchandising Division of Statistics Canada. This was the most up-to-date list of operators available. A basic questionnaire was mailed to all the operators across the country asking them to report on their credit needs and the availability of capital during the previous five years. After one follow-up letter, the returns were tabulated by type of accommodation and credit need. A probability sample was then selected independently from each credit need category and from each province.

Sample Design

The mail-out questionnaire was sent to the known 21,654 units that operate in all provinces and territories. A total of 10,136 responded. A stratified random sample of 1,000 units was then selected from all provinces and territories as well as an additional 140 units from the non-respondents in the same manner. The sample was allocated proportionate to the number of units in each province and territory.

Estimation

Let:

N_i = the total number of units in province i, where i=1 to i=12 Yukon.

Therefore,

$$N = \sum_{i=1}^{12} N_i,$$ is the total number of units in Canada.

N_{i1} = the number of respondents in the i^{th} province.

N_{i2} = the number of non-respondents in the i^{th} province.

Therefore $N_i = \sum_{j=1}^{2} N_{ij}$, the total number of units in a province after the completion of the mailing phase.

$N_{ijk} = k^{th}$ accommodation type, in the j^{th} response category in the i^{th} province.

Therefore $N_{i..} = \sum_{k=1}^{4} N_{ijk}$ is the total number of k^{th} accommodation types, etc.

N_{ijkl} = total number of l^{th} credit need of the k^{th} accommodation type of the j^{th} response group of the i^{th} province.

$N_{ijklm} = m^{th}$ unit, in the l^{th} credit need, etc.

$n_{ijklm} = m^{th}$ unit in the sample, in the l^{th} credit need, etc.

$n'_{ijklm} = m^{th}$ unit interviewed in the sample.

X_{ijklm} = any characteristic x of the m^{th} unit in the sample, etc.

Therefore, if we wish to estimate any characteristics $\hat{X}$ we have the following:

$$\hat{X} = \sum_{i=1}^{12} \sum_{j=1}^{2} \sum_{k=1}^{4} \sum_{l=1}^{3} \sum_{\forall m} \left[\frac{N_{ijkl}}{n'_{ijkl}} \cdot x_{ijklm} \right]$$

Note - for $j = 2$, $l = 0$, because, for non-respondents, the credit needs for various categories of accommodation could not be established due to obvious reasons.

Data Collection

The data was collected by means of a personal interview, by regular Veterans Land Act Assessors in the summer of 1970.

Sampling Variability

The data is weighted up for non-response, as described in the estimation procedure. The sampling of non-respondents to the mail survey was carried out to enable some evaluation of their effect on the estimates. Variance calculations can be arrived at by the use of standard formulae.

Section 2. Questionnaires

- Preliminary Mail-Out Questionnaire;

- Memorandum of Interview ;

- Supplementary Report to the Memorandum of Interview.

QUESTIONNAIRE

The information provided below is not for publication. It is solely for <u>confidential</u> use to help us assist you and the accommodation industry.

Office of Tourism,
Travel Industry Branch,
Oepartment of Industry,
Trade and Commerce.

1. Have you in the past 5 years had a need to borrow development capital for your establishment?

   Yes ☐ No ☐ If no, skip to question 6.

2. In what year did you last attempt to borrow development capital?

   1966 ☐ 1967 ☐ 1968 ☐ 1969 ☐ 1970 ☐

3. For what purpose did you require the capital?

   Initial purchase ☐ Initial building ☐ Enlarging ☐

   Modernization ☐ Equipping ☐ Other ☐

4. Were you able to borrow it? Yes ☐ No ☐ If no, skip to question 6

5. If "Yes" above

   (a) What was the length of repayment terms? __________ Years

   (b) What was the interest rate? __________ %

   (c) From whom did you borrow this capital?

   Bank ☐ Private ☐ Industrial Development Bank ☐

   Provincial Gov't. ☐ Morgtage Co. ☐ Other ☐

6. Indicate the form of organization of your establishment:

   Individual proprietorship ☐ Partnership ☐ Limited Co. ☐

   Other: ☐ Specify __________

7. Give the usual number of months of operation per year __________ months.

8. Give the number of each type of unit your establishment contains:

   (a) Hotel-motel type rooms, cottages, etc. __________

   (b) Campsites (trailer, tents) __________

   (c) 8erths for boats __________

9. What facilities are provided? Dining ☐ Alcoholic Beverages ☐ Swimming Pool ☐

   Other: ☐ Specify __________

10. Comments:

Department of Industry, Trade & Commerce, Ottawa

OFFICE OF TOURISM

Travel Industry Branch

MEMORANDUM OF INTERVIEW

CONFIDENTIAL

1. Name of Establishment — Address
2. Name of Owner — Address
3. Respondent — Position
4. Proprietorship: Individual ☐ Partnership ☐ Incorporated Company ☐ Other (specify) ☐
5. Community: Over 200,000 ☐ 50,000 – 200,000 ☐ 25,000 – 50,000 ☐ Under 25,000 ☐ or Rural ☐
6. Situated: City Centre ☐ Periphery ☐ Sub-Urban ☐ Rural ☐
7. Type of Establishment: Hotel ☐ Motel ☐ Lodge ☐ Cabins ☐ Tent Camp ☐ Trailer Camp ☐ (Other specify) ☐
8. Number of months of annual operation ☐ What months J F M A M J J A S O N D

8a. If a seasonal operation, does the operator have off-season employment Yes ______ No ______ If yes, what? ______

9. Number of Units ☐ Serviced Campsites ☐ Serviced Trailer Campsites ☐
10. Recreation facilities provided:

By Establishment		In the Area
☐	Pool	☐
☐	Bathing Beach	☐
☐	Boating	☐
☐	Fishing	☐
☐	Hunting	☐
☐	Skiing	☐
☐	Golf	☐
☐	Convention Rooms	☐
☐	Other (specify)	☐

11. Food and Beverage facilities: Dining Room ☐ Coffee Shop ☐ Licensed ☐
12. Occupancy Rate ☐ %
13. * Gross income last year of operation $ ☐
14. What % of gross income does the operator consider he could pay annually toward capital repayment (Inc. Int.) ☐ %
15. Present Financing: Primary – Lender: Bank ☐ Mortgage Company ☐ I.D.B. ☐ Provincial Gov't. ☐ Private ☐ Finance Company ☐ Other (specify) ☐

Amount of original Loan: $ ☐ Year 19 ☐ Interest rate ☐ % Term ☐ years

Amount presently outstanding: $ ☐ Remaining term ☐ years

Purpose of Loan: Initial purchase ☐ Initial construction ☐ Enlarging ☐ Improving ☐ Add'l Services ☐ Other (specify) ☐

16. Present Financing: Secondary – Lender: Bank ☐ Mortgage Company ☐ I.D.B. ☐ Provincial Gov't. ☐ Private ☐ Finance Company ☐ Other (specify) ☐

Amount of original Loan $ ☐ Year 19 ☐ Interest rate ☐ % Term ☐ years

Amount presently outstanding $ ☐ Remaining term ☐ years

Purpose of Loan: Initial purchase ☐ Initial construction ☐ Enlarging ☐ Improving ☐ Add'l Services ☐ Other (specify) ☐

17. Present Capital requirements:

Purpose	$	Items
Enlarging:	$	
Improving:	$	
Additional Services:	$	
Other (specify):	$	
TOTAL:	$	

17a. Has the operator tried to borrow this Capital? Yes ☐ No ☐

18. If the answer to 17a is "yes" was he able to borrow it? Yes ☐ No ☐

19. If "yes" from whom? Bank ☐ Mortgage Company ☐ I.D.B. ☐ Provincial Government ☐ Private ☐ Finance Company ☐ Other (specify) ☐ Interest rate ☐ Length of repayment term years ☐

If "no" to whom did he apply?

Bank ☐	Int. rate asked ☐ %	Term asked ☐	years
Mortgage Company ☐	Int. rate asked ☐ %	Term asked ☐	years
I.D.B. ☐	Int. rate asked ☐ %	Term asked ☐	years
Provincial Government ☐	Int. rate asked ☐ %	Term asked ☐	years
Private ☐	Int. rate asked ☐ %	Term asked ☐	years
Finance Company ☐	Int. rate asked ☐ %	Term asked ☐	years
Other (specify) ☐	Int. rate asked ☐ %	Term asked ☐	years

20. If the operator was unable to obtain this Capital what in his opinion were the reasons: Insufficient equity ☐ Insufficient amount ☐ Interest rate too high ☐ Repayment term too short ☐ Other (specify) ☐
21. What in the operator's opinion, is the market value of the Establishment? $ ☐

Date ______ Interviewer ______

9906-1.1 (5/70)

* A question was added to include "Gross Expenditures".